

# Quarterly Progress Report First Quarter 2000

The Egypt Capital Markets Development Project



CHEMONICS INTERNATIONAL INC



April 2000

USAID Contract No. 263-C-00-98-00067-00

## TABLE OF CONTENTS

---

|  |       |
|--|-------|
| Acronyms   | iii   |
| Executive Summary  | v     |
| SECTION 1—Introduction                                   | I     |
| A. Personnel and Organizational Changes                  | I-1   |
| B. Short-term Advisors Engaged During the Quarter        | I-1   |
| SECTION II—Capital Market Authority                      | II    |
| 1. Institutional Development and Training                | II-1  |
| 2. Information Technology Assistance                     | II-6  |
| 3. Legal and Regulatory Assistance                       | II-7  |
| 4. Public Awareness and Outreach                         | II-8  |
| SECTION III—Cairo and Alexandria Stock Exchanges         | III   |
| 1. Institutional Development and Training                | III-1 |
| 2. Information Technology Assistance                     | III-2 |
| 3. Legal and Regulatory Assistance                       | III-2 |
| 4. Public Awareness and Outreach                         | III-3 |
| SECTION IV—Misr for Clearing, Settlement, and Depository | IV    |
| 1. Institutional Development and Training                | IV-1  |
| 2. Information Technology Assistance                     | IV-3  |
| 3. Legal and Regulatory Assistance                       | IV-3  |
| 4. Public Awareness and Outreach                         | IV-6  |
| SECTION V—Securities Industries                          | V     |
| A. Egyptian Capital Market Association                   | V-1   |
| 1. Institutional Development and Training Assistance     |       |
| 2. Information Technology Assistance                     |       |
| 3. Legal and Regulatory Assistance                       |       |
| 4. Public Awareness and Outreach Assistance              |       |
| B. Egyptian Investment Management Association            | V-2   |
| 1. Institutional Development and Training Assistance     |       |
| 4. Public Awareness and Outreach                         |       |
| SECTION VI—Central Bank of Egypt                         | VI    |
| 1. Institutional Development and Training Assistance     | VI-1  |
| 2. Information Technology Assistance                     | VI-2  |
| SECTION VII—Ministry of Economy                          | VII   |
| 3. Legal and Regulatory Assistance                       | VII-1 |
| 4. Public Awareness and Outreach                         | VII-1 |

|   |         |
|---|---------|
| SECTION VIII—Monitoring and Evaluation            | VIII    |
| A. Quarterly Monitoring and Evaluation System     | VIII-2  |
| B. Intermediate Results                           | VIII-11 |
| C. Long-Range Outcomes                            | VIII-12 |
| APPENDIX A—Non-DT2 Training Activities            |         |
| APPENDIX B—DT2 and AUC-CACE Training Activities   |         |
| APPENDIX C—Project Produced Reports               |         |
| APPENDIX D—Summary of Reports: First Quarter 2000 |         |

## ACRONYMS

---

|       |   |
|-------|---|
| AIMR  | Association for Investment Management and Research          |
| ANNA  | Association of National Numbering Agencies                  |
| AUC   | American University in Cairo                                |
| CASE  | Cairo and Alexandria Stock Exchanges                        |
| CACE  | Center for Adult and Continuing Education (division of AUC) |
| CBE   | Central Bank of Egypt                                       |
| CMA   | Capital Market Authority                                    |
| CMD   | Capital Markets Development project                         |
| CML   | Capital Market Law  |
| COP   | Chief of Party  |
| DT2   | Development Training Two project                            |
| EAS   | Egyptian Accounting Standards                               |
| EU    | European Union  |
| ECMA  | Egyptian Capital Market Association                         |
| EDGAR | Electronic Data Gathering and Retrieval System (U.S.)       |
| EFA   | EFA Software, Ltd.  |
| EIMA  | Egyptian Investment Management Association                  |
| G-30  | Group of Thirty on Clearing and Settlement                  |
| GDR   | Global Depository Receipt                                   |
| GOE   | Government of Egypt   |
| IAS   | International Accounting Standards                          |
| IOSCO | International Organization of Securities Commissions        |
| IPF   | Investor protection fund                                    |
| IPO   | Initial public offering                                     |
| ISA   | International Standards on Auditing                         |
| ISIN  | International Securities Information Numbering              |
| IT    | Information technology                                      |
| MOE   | Ministry of Economy   |
| MOF   | Ministry of Finance   |
| MCSD  | Misr for Clearing, Settlement, and Depository               |
| NASD  | National Association of Securities Dealers Inc. (U.S.)      |
| NYSE  | New York Stock Exchange                                     |
| QPR   | Quarterly progress report                                   |
| OTC   | Over-the-counter market                                     |
| RFP   | Request for proposals                                       |
| RFQ   | Request for quotations                                      |
| SEC   | Securities and Exchange Commission (U.S.)                   |
| SGF   | Settlement guarantee fund                                   |
| SOW   | Scope of work   |
| S&P   | Standard & Poor's   |
| SRO   | Self-regulatory organization                                |
| UAS   | Unified Accounting Standards                                |
| USAID | United States Agency for International Development          |
| VNR   | Video news release  |

## **EXECUTIVE SUMMARY: FIRST QUARTER 2000**

---

This quarterly progress report (QPR) summarizes the activities of the Egypt Capital Markets Development (CMD) project during the first quarter of 2000. Following the introduction, this report discusses CMD's activities with its seven institutional partners—the Capital Market Authority (CMA), Cairo and Alexandria Stock Exchanges (CASE), Misr for Clearing, Settlement, and Depository (MCSD), the Central Bank of Egypt (CBE), the Ministry of Economy and Foreign Trade (MOE), and the securities industry, represented by the Egyptian Capital Market Association (ECMA) and the newly formed Egyptian Investment Management Association (EIMA). An eighth section addresses monitoring and evaluation, and the appendices present a summary of training activities, a list of the reports delivered over the life of the project, and summaries of the reports produced during the first quarter.

The first quarter marked the start of the project's work under the Year-2000 Work Plan. Like 1999, CMD's tasks were developed in close coordination with its institutional partners and are designed to achieve significant outcomes over the course of the year and beyond. The work plan provides the guiding framework for all of CMD's activities, but the project may find it necessary, as situations develop and other projects conduct their activities, to adapt plans and move ahead on different activities or with different methods to achieve the outcomes on which it has agreed with its institutional partners and USAID.

### **Capital Market Authority (CMA)**

The bond-dealer decree was signed and issued by the Minister of Economy and Foreign Trade in January, and CMD began drafting the standard forms for dealer applications and periodic reporting. CMD also completed and delivered the first level of the CMA process model for all departments, one of the first steps in the corporate planning and organizational development efforts. Other CMD achievements included the submission of a report on venture capital and turnaround funds, installation of hardware for a firewall security system, coordination of the thirteenth CMA-CMD Capital Market Press Forum, the launch of a stock market closing report on Egyptian television, and assistance with the completion of a new website. CMD also began development of educational brochures on a range of capital market topics.

CMD's long- and short-term advisors conducted a total of 690 person-hours of training. Training included a course on credit-risk analysis, a series of five workshops on money markets and money market instruments, and a workshop on financial disclosure. A total of 2,752 person-hours of CMA training was also conducted through the USAID-funded DT2 project, and six CMA staff members attended English-language training at the American University in Cairo's Center for Adult and Continuing Education (AUC-CACE), also funded by USAID.

### **Cairo and Alexandria Stock Exchanges (CASE)**

CMD delivered 180 computer workstations to CASE, completing the main portion of a hardware procurement to support the exchange's new trading software, for which it contracted independently. The project also received and began Arabizing the user documentation for the trading-system software. To help the exchange educate the public, CMD delivered a report outlining the requirements for establishing an investor information center and hotline, and continued to develop a video news release (VNR) to publicize the remodeling of the trading floor and the introduction of the new trading system.

CASE employees received a total of 568 person-hours of DT2-sponsored training, including an overseas study tour to major U.S. stock exchanges. Eleven employees attended English-language training at AUC-CACE.

### **Misr for Clearing, Settlement, and Depository (MCSD)**

The draft Central Depository and Registry Law was passed by the Economics Committee of the People's Assembly and forwarded to the floor of the assembly for final approval. CMD continued to assist MCSD with the finalization of the law, and achieved consensus with MCSD on the content of accompanying executive regulations. In addition, the first quarter saw the full implementation of the settlement guarantee fund (SGF), a major risk-containment mechanism and a Group of Thirty on Clearance and Settlement (G-30) recommendation. As reported previously, CMD played a major role in the development of the SGF. The project also worked closely with MCSD and market participants to kick off two new initiatives: the development of a securities lending and borrowing service and an examination of bankruptcy provisions in Egyptian law as they relate to risk-containment in the Egyptian market.

CMD's long- and short-term advisors conducted a total of 216 person-hours of training for MCSD and its participants, and 4,346 person-hours of training was provided through the DT2 project.

### **Securities Industry**

CMD continued to help ECMA develop and present its long-term plans to become a self-regulatory organization (SRO) to the CMA. During the first quarter, a paper summarizing the basic characteristics of SROs, mechanisms for establishing SROs in the Egyptian market, and ECMA's prospective role as an SRO was delivered to ECMA. It was used as the basis for an ECMA memorandum to the CMA Chairman. CMD also agreed to help EIMA and its members develop performance measurement standards for investment funds in Egypt, a new work-plan task. The project continued training ECMA staff members on database operation, preparing them to use the two databases developed in 1999—one tracking training programs and participants and the other tracking employees of member firms. Two ECMA staff members received English-language training through AUC-CACE.

### **Central Bank of Egypt (CBE)**

By conducting six workshops for CBE managers and staff (270 person-hours), consensus and buy-in was achieved on the characteristics and benefits of an electronic book-entry registry for government securities. CMD also advised the CBE on methods of conducting market-based auctions for government securities, and delivered a report outlining the requirements for primary dealers. On both of these activities, the project continued to coordinate closely with U.S. Treasury Advisor Keith Krchak, as well as with the Ministry of Finance (MOF). Through the DT2 project, CBE staff members received 2,752 person-hours of training, and six employees attended English-language training at AUC-CACE.

### **Ministry of Economy and Foreign Trade (MOE)**

CMD completed improvements to the MOE website. These improvements included a redesign of the site's visual look, the development of database and search features, and the addition of content on e-commerce and trade. The enhanced site will be launched in the second quarter.

CMD will work with the MOE to review and comment on the draft of a new Capital Market Law when it is made available.

### **Monitoring and Evaluation**

The project is monitoring its progress along three dimensions: in terms of the work plan, intermediate results, and long-range outcomes. Defined by USAID, the last two factors are designed to monitor progress over the life of the project's technical assistance program. The intermediate results were exceeded in 1999. Market size and activity, which the intermediate results measure, continued to expand in the first quarter of 2000, up significantly from the same period in 1999. With CMD assistance, the Egyptian market also moved closer to major achievements in each of the long-range-outcome areas, in particular the capital market's legal structure, the trading capacity of the exchange, and the training of market regulators and participants.

### **Issues and Challenges**

CMD successfully engaged an expert in network management systems during the quarter, overcoming a significant challenge affecting the project's work in 1999. The project also neared completion of its primary Internet-related activities, successfully recovering from delays caused by a subcontractual issue. To move year-2000 activities forward, the project is actively working to overcome two new challenges. First, receipt of a draft copy of the new Capital Market Law is required to move ahead on SRO assistance, as the law is expected to specify the requirements for such organizations in the Egyptian market. The project is in close contact with the MOE on this issue, and expects the draft law to be released in the coming months. Second, the pace of the Arabization of the user documentation for the new trading software slowed pending CASE's approval of a glossary of terms, a draft of which CMD delivered at the beginning of the year. A glossary is necessary to ensure that the Arabization conforms to the translation and adaptation of the software, which is being undertaken by CASE and its software supplier. The project is working closely with CASE Chairman Dr. Sameh El Torgoman on this issue.

## **SECTION I**

---

### **Introduction**

This quarterly progress report (QPR) summarizes the Egypt Capital Markets Development (CMD) project's activities and achievements during the first quarter of 2000. It is divided into eight sections. The first section introduces the report and provides a list of the short-term advisors engaged during the reporting period. Sections II through VII provide a narrative discussion of the project's current, ongoing, and planned work with each of our partner institutions, as well as highlight boxes with additional information on the quarter's most notable activities. The final section of the QPR summarizes and evaluates progress to date along three dimensions: the outcomes listed in the Year-2000 Work Plan, intermediate results, and long-range outcomes (with the last two defined by USAID in terms of the life of the project).

### **A. Personnel and Organizational Changes**

During the first quarter, CMD made a number of personnel changes as several valuable long-term employees moved on to other assignments. Expatriate Stock Exchange Operations Advisor William Lee left the project to join a major international securities firm, and Public Relations Specialist Mona Boutros left to join an international cement company. Training Coordinator Rebab Wereda accepted a position with the USAID-funded DT2 project.

Dina Kafafi has been appointed training and monitoring and evaluation coordinator. CMD is currently recruiting for a long-term professional to lead its public relations and outreach efforts. The project's Chief of Party (COP) and Deputy Chief of Party (DCOP) will direct the project's efforts at CASE, with periodic assistance from short-term advisors.

### **B. Short-Term Advisors Engaged During the Quarter**

CMD engaged a total of 11 expatriate and 8 local short-term advisors during the quarter (see Tables 1 and 2). The input we receive from our highly qualified short-term advisors, both local and expatriate, provides us with specialized skills and adds depth to our long-term teams.



**Table 1**  
**Expatriate Short-Term Advisors Engaged**  
**First Quarter 2000**

| <b>Name/Subcontractor</b>                                 | <b>Primary Area of Assistance</b>                | <b>Dates of Engagement</b>               |
|---|--|--|
| Charles Rubin<br>(Chemonics International)                | Securities Lending and<br>Borrowing (MCSD)       | Jan. 15 to Jan. 27                       |
| Andrea M. Esposito<br>(Standard & Poor's)                 | Credit Analysis Course (CMA)                     | Feb. 13 to Feb. 18                       |
| Walter S. "Jack" Foster<br>(Standard & Poor's)            | Credit Analysis Course (CMA)                     | Feb. 13 to Feb. 18                       |
| Donald North<br>(Edelman Communications<br>International) | Broadcasting Training<br>Program (CMA)           | Feb. 15 to Mar. 7                        |
| Bill Moore<br>(Edelman Communications<br>International)   | Educational Video Series<br>(CMA, CASE)          | Feb. 15 to Feb. 22                       |
| Richard Smith<br>(Chemonics International)                | Central Registry Regulations<br>(CMA)            | Feb. 16 to Feb. 29<br>Mar. 24 to Apr. 18 |
| Konnie Andrews<br>(Chemonics International)               | Educational Brochures (CMA)                      | Feb. 17 to Jul. 3                        |
| Ashwinpaul C. Sondhi<br>(Chemonics International)         | Financial Disclosure (CMA)                       | Mar. 8 to Mar. 16                        |
| Sylvia Reis<br>(Chemonics International)                  | Electronic Data Gathering and<br>Retrieval (CMA) | Mar. 18 to Apr. 8<br>Apr. 20 to Apr. 23  |
| Marc Albert<br>(Chemonics International)                  | Bankruptcy Law (MCSD)                            | Mar. 20 to Apr. 7                        |
| John McPartland<br>(IIT)                                  | Budgeting Manual (MCSD)                          | Mar. 23 to Apr. 11                       |

**Table 2**  
**Local Short-Term Advisors Engaged**  
**First Quarter 2000**

| <b>Name/Subcontractor</b>                       | <b>Primary Area of Assistance</b>                                  | <b>Dates of Engagement*</b>           |
|---|--|---------------------------------------|
| Mohamed Abdel Salam<br>(Zarrouk, Khaled, & Co.) | Budgeting Manual (MCSD)  | Jan. 3 and ongoing<br>(intermittent)  |
| Amr Fouad<br>(Zarrouk, Khaled, & Co.)           | Budgeting Manual (MCSD)<br>Disclosure Requirements<br>(CMA)        | Jan. 3 and ongoing<br>(intermittent)  |
| Mona Samir<br>(Arabsoft)                        | Analyst/Programmer (ECMA)  | Jan. 3 and ongoing<br>(intermittent)  |
| Suzane Beltagy<br>(Arabsoft)                    | Documentation Specialist<br>(ECMA)                                 | Jan. 3 and ongoing<br>(intermittent)  |
| Osman Hegazy<br>(Arabsoft)                      | Firewall Procurement (MCSD,<br>CMA)                                | Jan. 4 to Mar. 13                     |
| Hisham El Masry<br>(Arabsoft)                   | Hardware Procurement<br>(CASE)                                     | Jan. 11 and ongoing                   |
| Sayed Karam<br>(Zarrouk, Khaled, & Co.)         | Disclosure Requirements<br>(CMA)                                   | Mar. 12 to Mar. 14                    |
| Omar Thakeb<br>(Chemonics International)        | Layout and Graphic Design,<br>Educational Brochures (CMA,<br>ECMA) | Mar. 13 and ongoing<br>(intermittent) |

---

\* The dates only reflect time worked during 2000. They do not reflect time worked during CMD's first year of operation. "Ongoing" indicates that the assignment will be completed after the end of the reporting period.

## SECTION II

### Capital Market Authority

The first quarter's most important achievement was the promulgation of a decree permitting dealer-based trading in corporate bonds and government securities. With the decree in place, CMD began working with the CMA and MOE to develop standard forms to implement dealer-based trading, and to train regulators and market participants. CMD also delivered the first level of the CMA process model, provided training in financial disclosure and credit risk analysis, and conducted the thirteenth session of the CMA-CMD Capital Market Press Forum.

CMD initiated an extra work plan task during the quarter—helping the CMA study ways of increasing the demand for securities in the Egyptian market. Assistance with the demand study has been added to our activities as task number CMA 1.5a.

As in 1999, the project's Year-2000 activities are focused in four basic areas:

- Institutional Development and Training
- Information Technology Assistance
- Legal and Regulatory Assistance
- Public Awareness and Outreach

Throughout the quarter, CMD continued to work closely with CMA Chairman H.E. Abdel Hamid Ibrahim, Deputy Chairman Ashraf Shamseldin, and the rest of the CMA's managers and staff.

#### 1. Institutional Development and Training

##### 1.1 Corporate Planning and Organizational Development

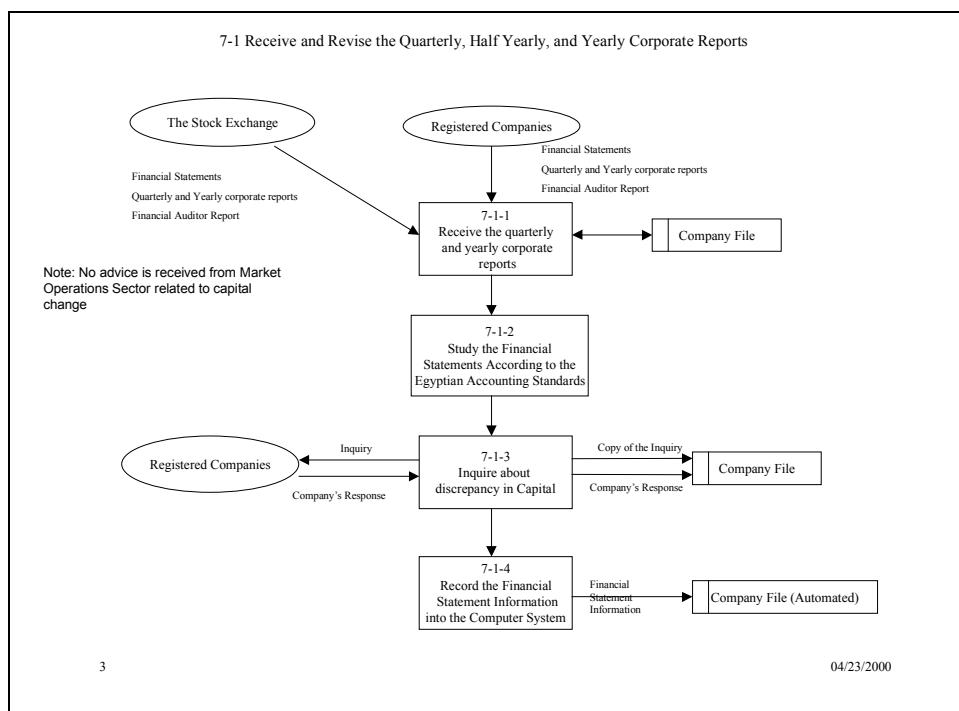
During 2000, CMD continues to assist the CMA with assuming a purely regulatory role within the Egyptian market. Completing the first level of the CMA process model was part of the first stage of these institutional development efforts. The process model is a graphical description of information flow through and between major CMA departments. We will complete the second level of the model, focusing on the CMA's Market Operations and Financial Analysis and Accounting sectors, by the end of the second quarter (see Box 1 for a sample page from the first level of the model).

#### Major Achievements: First Quarter 2000

- Minister of Economy and Foreign Trade signed decree allowing for dealer-based trading in government and corporate bonds.
- Drafted and delivered forms for periodic filings by soon-to-be-established bond dealers.
- Completed and delivered first level of the CMA process model.
- Provided course on credit risk analysis to CMA staff and representatives from CASE and the securities industry.
- Conducted five workshop sessions on money markets and money-market instruments.
- Conducted workshop on financial disclosure
- Delivered a report on venture capital and turnaround funds.
- Delivered firewall hardware, and awarded contract for software, installation, and training portions of the procurement.
- Conducted thirteenth session of the CMA-CMD Capital Market Press Forum.
- Helped launch stock market closing report on Egyptian television.

The process model will be used as a “living document,” providing the CMA with an updateable way of understanding its processes and operations. It will also be used as the foundation for institutional development efforts and as the first step in developing a strategy for automating key functions.

**Box 1: Example Page from Level One of the Process Model**



The first level of the model has begun to yield valuable information for use by CMA management. For example, the model indicates that procedures do not exist to transfer information about capital increases from the Market Operations Sector, which approves the increases, to the Financial Analysis and Accounting Sector, which reviews periodic filings from issuers (see Box 1). By establishing procedures to transfer information between the two sectors, confusion surrounding the appearance of capital increases on periodic filings can be avoided.

## 1.2 Improving Market Surveillance, Compliance, and Broker Registration and Testing

### Surveillance

The CMA specified the exact location for the remodeled surveillance department during the quarter, and CMD re-engaged short-term advisor Mr. George Bird to finalize the technical drawings and specifications he drafted in 1999. The revised drawings were delivered to the CMA for review.

CMD will engage a short-term expatriate advisor to continue its surveillance efforts during the second and third quarters.

### Broker Field Inspection and Registration and Testing

The CMA management rescheduled work on broker registration and testing and broker field inspection to later in the year. CMD and the CMA agreed that both efforts require additional

preliminary steps. For broker field inspection, prudential rules need to be drafted for broker books and records; and, for registration and testing, additional work on developing training programs for industry sales representatives is required. CMD is assisting in both areas.

### **1.3 Facilitating the Introduction of New Financial Instruments**

#### **Dealer-Based Bond Trading**

CMD assisted with the finalization of the new bond-dealer decree (see previous QPRs for a summary of CMD's contribution in this area). After the decree was issued by the Minister of Economy and Foreign Trade in January, the project began developing required forms and procedures for its implementation. These include application forms, forms for reporting net capital, and forms for bond dealers to report daily inventories to the CMA, all of which were delivered to the CMA. An outline of standard documentation for "sale buy-back" transactions (repurchase transactions) is currently being developed and will be delivered in the second quarter.

To help prepare the CMA staff for the implementation of the decree, as well as for the possible introduction of new financial instruments it will bring, CMD conducted a workshop series on money markets for the CMA staff. The workshop's five sessions covered the following:

- The definition of "money" and its historical development as a medium of exchange
- The role of banks and the banking system, as well as money market instruments
- The role of central banks and the growth of the money supply
- Repurchase transactions for dealers of fixed-income instruments
- Review of topics

Ten to fifteen CMA staff members regularly attended the sessions. They were drawn from the following departments: Corporate Finance and Mutual Funds, Surveillance, Establishment of Joint-Venture Companies, and International Capital Markets. Similar workshops will be conducted at the CBE starting in May (see section VI).

#### **Venture Capital and Turnaround Funds**

As part of the project's efforts to help the market develop new avenues for investment, CMD delivered a discussion paper on venture capital and turnaround funds. Entitled "Private Equity Investing: Venture Capital/Development Funds and Turnaround Funds," the paper covers the purposes, characteristics, risks, and benefits of both types of funds. It includes a brief discussion of the legal and regulatory issues that should be considered and the desirability of encouraging the introduction of these types of funds.

The report concludes that private equity funds can provide needed capital for new companies, growth for existing companies, and turnaround investments required by troubled companies. Nevertheless, the managers of these funds are sophisticated investors who require legal and regulatory protections in order to successfully raise and manage private equity capital. As a result, corporate governance provisions to protect minority shareholders, and protections against self-dealing should be strengthened. These provisions should be coupled with effective enforcement procedures before the funds are introduced and encouraged in Egypt.

#### 1.4 Increasing the Functional Capacity and Abilities of the CMA Staff

CMD continued its extensive training activities for the CMA's professional staff. The activities include on-the-job training for the Corporate Finance Department and specialized workshops and seminars using the resources of our long-term team and short-term advisors.

##### Specialized Workshops and Seminars

During the first quarter, the following workshops and seminars were conducted:

- *Course on credit risk analysis conducted by subcontractor Standard & Poor's.* The four-day course was attended by participants from the CMA, CASE, and the securities industry. Taught by Standard & Poor's training unit, it covered the basic aspects of credit analysis and rating, allowing participants to achieve a firm grasp of the subjects and issues involved.
- *Roundtable on Credit Rating and Analysis led by subcontractor Standard & Poor's.* After completion of credit analysis course, CMD organized a roundtable to discuss issues and problems facing the credit-rating industry in Egypt. Representatives from the securities industry, S&P, two credit rating agencies working in Egypt, and the CMA attended the session. Participants discussed the differences between national and international credit ratings, the problem of inefficient and inexperienced accountants and auditors, and the regulation of credit rating agencies.
- *Workshop on Money Markets led by CMD's long-term expatriate Money and Bond Markets Advisor (see Section 1.3).*
- *Workshop on financial disclosure conducted by CMD short-term advisor Dr. Anthony Sondhi (see Section 3.1).*

##### On-the-job Training and Specialized Technical Assistance

On-the-job training for the Corporate Finance Department was provided by a CMD senior financial advisor. On many issues, CMD's other technical staff, both local and expatriate, provide valuable input. CMD's assistance to the department included the following:

- Provided advice on the valuation of a joint-venture bank's shares.
- Prepared a position paper reviewing the prospectus for a high-growth mutual fund incorporated abroad and applying to list on the exchange.
- Prepared a detailed memorandum on another mutual fund incorporated outside of Egypt and specializing in the telecommunications and information technology sectors. The memorandum highlighted policy concerns for the CMA to consider.
- Provided technical assistance to the CMA on evaluating a prospectus for a possible Global Depositary Receipt (GDR) offering by a major Egyptian company.

- Prepared a memorandum researching defaults on corporate bonds in Egypt. CMD found that there has only been one instance of default, and summarized its history and current status.
- Answered questions from the corporate finance staff on the structure of a zero-coupon bond.
- Prepared a background paper on hybrid securities, explaining their nature, types, and historical development. It concludes that until the necessary infrastructure is in place, the CMA should be reticent to approve such securities.

#### DT2-sponsored Training Programs and CACE English-language Training

CMD continued to facilitate attendance by CMA staff members at training programs conducted by the USAID-funded DT2 project, as well as at English-language courses taught by the American University in Cairo's Center for Adult and Continuing Education (AUC-CACE). The CACE program is also funded by USAID. These programs are described in Box 2.

#### **1.5 Additional Institutional Development and Training Activities**

##### **Box 2: Training Programs Conducted Through DT2**

The following training programs were conducted through the USAID-funded DT2 project during the first quarter:

- *Developer 2000* (TSN 709-2). Six CMA staff were provided a 63 hour short course on Developer 2000: Tools and Foundations. It was an introductory course designed for new employees who are responsible for database administration and tuning.
- *Overview of Management Functions & Skills* (TSN 699). Ten staff members attended. This was a 97 hour short-course on management concepts, practices, and skills. It included instruction in budgeting and work planning.
- *Mastering Web Application Development* (TSN 713). Six CMA staff members attended this course in website development and administration. The course was designed to provide participants with the ability to manage their institution's websites.
- *Mutual Funds* (TSN 731-2). Five CMA staff members attended this short-course on the basics of mutual/investment fund operation and management. Topics included fund managers' obligations toward investors and legal and regulatory issues.

At the end of 1999, CMD agreed to support the CMA in a study of ways of increasing the demand for Egyptian securities. The CMA is undertaking the study in its capacity as advisor to the Egyptian government on capital market issues, with the aim of making concrete policy recommendations to senior officials, including the Prime Minister and Cabinet.

The study will examine four aspects of the demand for securities:

1. the macroeconomic requirements for enhancing and supporting the status of the securities markets
2. the supply side of investment securities
3. the demand side of investment securities
4. methods of increasing public awareness of investing

A different team leader and research assistant—under the joint direction CMA Board Member Dr. Hanaa Kheir Eldin and CBE Deputy Governor Dr. Mahmoud Abou-Eyoun—will draft each section of the report. The team leaders and research assistants have been engaged as CMD short-term local advisors. CMD is also engaging a short-term expatriate

advisor to help review the study's methodology, structure, and sources. Four CMD long-term advisors and two brokerage firm executives are serving on the study's steering committee.

The draft sections of the demand study are scheduled for completion by the end of the second quarter, with workshops for selected industry participants and academics scheduled thereafter. The final report is scheduled for publication in late-July or early-August 2000.

## **2. Information Technology Assistance**

### **2.1 Developing an Electronic Database for Filing and Retrieving Corporate Information**

Short-term expatriate advisor Sylvia Reis made an initial, fact-finding and evaluation visit to introduce the requirements for an electronic database for filing and retrieving corporate information. During her visit, she also demonstrated the U.S. SEC's EDGAR system to the CMA IT Department. Ms. Reis delivered a presentation on the basic requirements and characteristics of the electronic database to the CMA senior staff during April. A report on her findings will be released in the second quarter.

The one of the first steps in the development of the database is specification of disclosure requirements. CMD is assisting with this effort (see Section 3.1).

### **2.2 Improving the Functioning and Security of Electronic Systems**

CMD delivered the hardware for firewalls at the CMA and MCSD, and issued a contract for the software, installation, and training portion of the procurement. Installation of the firewalls will be completed in the second quarter.

### **2.3 Developing a Computerized Archiving System for CMA Documents**

CMD continued to work with the CMA to outline requirements for an archiving system for its documents. Work will be continued in the second quarter, and the specifications for the procurement will be developed.



### **3. Legal and Regulatory Assistance**

#### **3.1 Improving the Legal and Regulatory Structure**

##### **Financial Disclosure**

CMD concluded its analysis of Egyptian disclosure requirements, work that was started in 1999. The 1999 parts of the task included two reports: one comparing Egyptian and International Accounting Standards and another recommending improvements to non-financial disclosure requirements. Recommendations on improving financial disclosure requirements is the final part of the task. This aspect of CMD's work is being conducted with short-term advisor Dr. Anthony Sondhi, a noted expert in the field. During an initial field visit, Dr. Sondhi interviewed CMA officials and issuers, and examined a selection of annual reports and other corporate filings. He will return to Cairo in May to deliver a final report on his findings.

During his visit, Dr. Sondhi conducted a workshop on financial disclosure and compliance for the CMA's Accounting and Corporate Finance Departments. Approximately 20 staff members attended the session. He noted the following deficiencies in current disclosure requirements: (1) the need for consolidated financial statements to disclose more information; (2) the problem of producing informative cash-flow statements in the initial year after a merger; and (3) the importance of separating the effects of foreign exchange operations on cash-flow statements. These and other issues will be discussed in Dr. Sondhi's forthcoming report.

##### **Rule on Rule Making**

The CMA Chairman publicly announced that the CMD-drafted Rule on Rule Making would be submitted to the CMA Board of Directors for approval. The rule is expected to yield significant improvements in transparency, increasing the opportunity for market participants to contribute and comment on new CMA initiatives. The Rule on Rule Making calls for all new CMA rules to be released publicly for comment before they are finalized and issued. It also provides mechanisms for amending new and existing rules. CMD's draft of the rule is modeled on similar procedures used by the U.S. SEC.

#### **3.2 Establishing an Investor Protection Fund**

Establishing an investor protection fund is a long-term initiative on which CMD is assisting with the initial steps. Part of this effort is considering the major legal and regulatory issues involved, most importantly bankruptcy. During the bankruptcy workshop conducted with the assistance of short-term expatriate advisor Marc Albert, it became apparent that current Egyptian bankruptcy law is inadequate to protect customer assets in the event that a broker-dealer goes bankrupt. CMD is currently working with participants in the bankruptcy workshop, who represented a cross-section of government and private institutions, to address these issues (see Section IV, 3.1).

#### **3.3 Creating Self-Regulatory Organizations (SROs)**

CMD did not complete any work directly related to SRO creation for the CMA, pending receipt of a draft of the new Capital Market Law. The new law is expected to provide the

framework and requirements for SROs in Egypt. The project provides limited assistance to ECMA and EIMA in the SRO area (see Section V, 1.1).

#### **4. Public Awareness and Outreach**

##### **4.1 Training Financial Journalists**

###### *CMA-CMD Press Forum*

CMD conducted the thirteenth CMA-CMD Press Forum in January. CMA Chairman H.E. Abdel Hamid Ibrahim, CASE Chairman Dr. Sameh El Torgoman, and MCS D Deputy Chairman and Managing Director Mohamed Abdel Salam presented their institutions' achievements during 1999 and their plans for 2000. Approximately 25 journalists attended. The discussion included challenges to the validity of the CMA Index and discrepancies between CMA statistics and those provided by the Ministry of Economy and Foreign Trade. Several journalists also criticized the fact that information on the CASE website is not provided to journalists free of charge. In response, Dr. Torgoman approved an exemption for the journalists, allowing them free access to the information. Mr. Abdel Salam and Mr. Ibrahim also talked about the creation of a securities lending and borrowing service, which they announced is sanctioned by the draft Central Depository and Central Registry Law (see Section IV, 3.2).

###### *Technical Training for Financial Journalists*

CMD signed a contract with the Arab Academy for Banking and Financial Sciences to provide financial and capital market training to financial journalists. A core committee of six senior journalists was formed to provide feedback on course design. The committee includes representatives from government, opposition, and independent publications. The course, scheduled to start in the second quarter, will provide 60 hours of classroom instruction to approximately 30 journalists.

###### *Broadcaster Training*

Short-term expatriate advisor Donald North made preparations for two professional workshops for television and radio broadcasters. The content of the workshops was discussed with the CMA, CASE, and Egyptian television and prospective attendees were contacted. The workshops are scheduled for late in the second or early in the third quarter.

##### **4.2 Improving Press Relations and Public Outreach**

###### *Assistance to the Press Relations and Information Department*

CMD continued to provide on-the-job training in public relations and public information during the quarter. This assistance was primarily focused on the reorganization of the Public Relations Department and training the CMA's newly appointed Public Relations Manager, Mahmoud Abdel Kader. CMD's long-term communications specialist trained Mr. Abdel Kader in handling inquiries from the international media, providing information on issues in the press, advising senior managers on how to deal with the media, organizing press conferences and the press forum, and other public information-related skills.

CMD also helped enhance the CMA's public relations and information efforts in other areas, including the following:

- Produced a fact sheet on the cement company sales and arranged an interview for the CMA Chairman with news daily *Al-Ahram*. The fact sheet and interview were designed to clarify CMA rules regarding the bidding war for control of Amereyah Cement Company, the first time such a public bidding process had taken place in Egypt.
- Provided example pages to *Al-Ahram* and established regular sources of information at the CMA for a daily capital market page. The page was launched during the reporting period and has proven to be a useful pipeline for the CMA Chairman to make public statements on issues affecting the market.
- Developed the model for a weekly CMA Bulletin. It will appear regularly on the CMA website after its launch in May, providing a reliable source of information on CMA decisions and other information to the public.

#### *Investor Education Brochures and the 1999 Annual Report*

CMD began developing a series of investor education brochures, utilizing the services of short-term publications advisor Konnie Andrews. Outlines of the first two brochures were completed and presented to the CMA for review and discussion. They are titled "Introducing the Capital Market" and "Preparing to Invest." The CMA agreed to sponsor these two brochures. The other four to five brochures will most likely be sponsored by ECMA or another institution. For these brochures, CMD recommended the following topics:

- Choosing investment instruments
- Investing in stocks
- Investing in bonds
- Investing in mutual funds
- Managing your investments

The brochures, which will be published in Arabic, are designed to introduce investors and prospective investors to the Egyptian marketplace, the types of investments it offers, and basic concepts of investing. By doing so, the brochures will create confidence in the market and help investors develop realistic expectations, assess risks, and make informed decisions. All of the brochures are scheduled for completion and publication by the end of the third quarter.

CMD also began helping the CMA on the production of its 1999 Annual Report. By the end of the reporting period, an outline of the report was produced, information was gathered from the CMA and other sources, and a draft was started. In April, a full draft of the report was delivered to the CMA for review. It is scheduled for publication early in the third quarter.

#### **4.3 Establishing a Website**

The CMA website was completed and delivered to the CMA for review in both Arabic and English. Before the end of the reporting period, the CMA returned comments on the English site. Comments on the Arabic site are due by the end of April. During the quarter, CMD modified some of the visual materials and layout of the site in response to CMA requests.

The site will be launched at the beginning of May. CMD helped the CMA secure hosting for the site on the Egyptian government's Information and Decision Support Center (IDSC) server. Its address will be "www.cma.gov.eg."

#### **4.4 Improving the Quality of Financial Journalism on Television**

Egyptian TV's Financial News Department launched a live market closing report. The segment appears during Channel One's show, "Good Evening Egypt" (*Masaa al-Kheir ya-Misr*), hosted by TV financial news anchor Mohamed Hussieny. CMD provides ongoing support for the production of graphical materials. The segment is approximately three minutes long, doubling the amount of television airtime devoted specifically to Egyptian financial news. The regular financial news summary continues to be broadcast during the 9pm evening news show on Channel One. CMD also provided periodic assistance with graphical material for this segment.

## SECTION III

---

### Cairo and Alexandria Stock Exchanges

CMD's work with CASE focused on Arabizing the documentation for the exchange's new trading software, planning for an investor information center and help line, developing a video press release (VNR) to publicize the remodeling of the Cairo trading floor, and launching the stock market game. CMD also facilitated training activities through the USAID-funded DT2 project.

As in 1999, the project's Year-2000 activities are focused in four basic areas:

- Institutional Development and Training
- Information Technology Assistance
- Legal and Regulatory Assistance
- Public Awareness and Outreach

#### **1. Institutional Development and Training**

##### **1.1 Corporate Planning and Organizational Development**

Work will be initiated in this area later in the year, after specifying the exact requirements and timing with CASE's Chairman, Dr. Sameh El Torgoman and his senior staff.

##### **1.2 Improve Procedures for Managing Market Operations**

CMD finalized a report assessing the current state of the over-the-counter (OTC) market and prioritizing improvements. The report was drafted by short-term advisor Charles Forman based on information gathered during a field visit in December 1999. A draft version of the report was delivered to CASE officials early in the first quarter for comment. The final version was completed in late February.

The report reveals that there are two sets of procedures for OTC transactions, one for trades under LE20 million and one for those over LE20 million. The different procedures sometimes lead to differences in posted trade dates, resulting in confusion on the part of investors and brokers. The report also finds that conducting trades requires a great deal of paper work, some of which may not be necessary, and that information about the trades is not adequately disseminated to market participants.

It concludes with 13 short-term and 8 long-term recommendations. The recommendations are designed to ensure that the essential elements of a liquid OTC market are in place: online quotes, display of last-sale information, and enabling principal trading by dealers. The appendices graphically describe CASE's procedures for OTC trades and provide sample forms.

#### **Major Achievements: First Quarter 2000**

- Delivered 180 workstations, completing the main portion of the hardware procurement to support the exchange's new trading system software.
- Began Arabizing (translating and adapting) the documentation for the new trading system software.
- Stock market game successfully launched at pilot secondary schools and universities.
- Continued to produce video new release (VNR) to publicize the opening of the new trading floor and the introduction of the new trading system.
- Delivered report outlining the requirement and timetable for creation of an investor information center and hotline.

## 2. Information Technology Assistance

### 2.1 Improvement of Data-Processing Systems

CMD delivered 180 workstations to CASE during February to support the exchange's new trading system, completing the main portion of its most important hardware procurement. CASE purchased the trading software independently. CMD also began translating the software documentation into Arabic and modifying it to match the trading system as it will be adapted and installed.

The translation and adaptation of the documentation has been slowed pending CASE's approval of a glossary of terms. CMD delivered a draft glossary at the beginning of the translation process, and is following up on feedback. A glossary is necessary to ensure that the translation of the documentation conforms to the translation of the software, which is being undertaken by CASE and its software supplier. CASE has rescheduled the launch of the new system for August.

CMD expects to finish Arabizing the three manuals CASE has delivered by the end of the second quarter. The documentation may require modifications after CASE approves the glossary.

## 3. Legal and Regulatory Assistance

### 3.1 Improve Current Rules Governing Exchange

CMD continued reviewing draft membership rules from the regulatory perspective, and the appropriateness to the activities of brokers.

### 3.2 Advise and Assist with the Creation of SROs

CMD's legal work in this area is dependent on receipt of the draft of the new Capital Market Law, which will specify the basic legal framework for SROs in Egypt (see Section II, 3.3).

#### Box 1: Training Programs Provided through DT2

Through the USAID-funded DT2 project, three training programs were conducted for a total of 10 staff members from the exchange. Approximately 618 person-hours of training was conducted during the quarter. CASE staff members attended the following programs:

- *Financial and Public Relations for Stock Exchanges*: This program was a ten-day observational study tour to the U.S. for two members of the exchange staff. They gained an understanding of the unique financial practices of stock exchanges, how exchanges do their budgeting, and the techniques used in forecasting exchange volumes and transactions.
- *Developer 2000*: Six staff members from the exchange's IT Department were provided a 63 hour short course on Developer 2000: Tools and Foundations. It was an introductory course designed for new employees who are responsible for database administration and tuning.
- *Mastering Web Application Development*: Two members of the CASE IT Department attended a 40-hour course on website development and maintenance. The purpose of the course was to enable participants to design websites, web pages and screens, and to maintain websites.

## **4. Public Awareness and Outreach**

### **4.1 Enhance Awareness of Investors, Students, and the General Public**

#### *Investor Information Center and Hotline*

CMD completed a draft report outlining the resources and time commitments required to establish an investor information center. The recommendations address four areas:

- Infrastructure
- Informational materials/brochures
- Online facilities
- Sustainability (staffing)

The draft report was delivered to the CASE Marketing Department, which plans to initiate the development effort in the coming months.

#### *Stock Market Game*

The stock market game, which CMD helped develop in 1999, was launched at pilot locations during the quarter. Several secondary schools and universities are included in the program, including the Faculty of Economic and Political Science at Cairo University, the Sadat Academy, the Arab Academy for Maritime Sciences and Technology, Misr Language School, and Mere De Dieu School. In total, 146 groups, each with between one and five students, played the pilot game. The participants learned the basics of investing and the stock market by participating in the simulation, which used real market data and even accounted for broker fees, commissions, and other expenses. The game was played over the Internet, with web pages created by the CASE staff based on an outline developed by the project. Initial reports from the exchange, participants, and educators indicate that the pilot program is very successful.

A CMD financial advisor is playing the game with the students and offering comments and assistance with the implementation process. The project will report on the pilot program in the second quarter, recommending improvements to CASE.

#### *Educational Brochures*

CMD discussed production of educational brochures with the CASE Marketing Department and management. CASE said they would produce a set of brochures to complement those being produced by the project. CMD completed outlines of the first two brochures, which will be sponsored by the CMA, during the reporting period (see Section II, 4.2).

#### **4.2 Help Organize and Conduct Major Events**

CMD continued producing a video new release (VNR) to publicize the opening of the exchange's new trading floor and launch of the new trading system. Subcontractor Edelman Communications International (ECI) produced a final script for the VNR and delivered it to CASE for review. Additional video materials were also produced and research materials collected. The VNR will document the renovations at the exchange using footage gathered by the project over the past year. It will present relevant information on Egypt and its stock market. CMD expects the VNR to be released in the second quarter.



## SECTION IV

### Misr for Clearing, Settlement, and Depository

CMD's first-quarter efforts focused on finalizing the draft of the Central Depository and Central Registry Law, which is currently before the People's Assembly, and drafting its accompanying executive regulations. The project also began work on establishing a securities lending and borrowing service and conducted the first in a series of workshops on issues in Egyptian bankruptcy law affecting capital markets.

As in 1999, the project's Year-2000 activities are focused in four basic areas:

- Institutional Development and Training
- Information Technology Assistance
- Legal and Regulatory Assistance
- Public Awareness and Outreach

Throughout the quarter, CMD benefited from its continued close working relationship with MCSD Deputy Chairman and Managing Director Mohamed Abdel Salem and the entire MCSD management and staff.

#### **1. Institutional Development and Training**

##### **1.1 Document Services, Systems, and Controls**

###### Internal and External Procedures—Budgeting Manual

Short-term advisor John McPartland and subcontractor Zarrouk, Khaled, and Co. began developing a budgeting manual with the MCSD staff and management. The outline of the manual was completed in April. CMD will complete the draft manual during the second quarter.

###### Internal and External Procedures—Central Registry Function

CMD and short-term advisor Richard Smith worked with MCSD to draft rules and procedures to implement the central securities registry function. The procedures correspond to the requirements of the draft Central Depository and Central Registry Law and to international standards and best practices. The draft rules will be discussed with market participants during the second quarter and eventually with the CMA (see 3.1 for a discussion of the regulations covering the central registry function).

#### **Major Achievements: First Quarter 2000**

- Assisted with the finalization of the draft Central Depository and Central Registry Law.
- Drafted executive regulations to accompany new Central Depository and Central Registry Law.
- Drafted preliminary rules and procedures to implement the central securities registry service at MCSD.
- Examined bankruptcy provisions in Egyptian law as they relate to MCSD's risk-containment role and conducted workshop for market institutions and participants on the findings.
- Wrote and circulated report on the basic characteristics of securities lending and borrowing services to market participants and conducted a workshop for MCSD and other interested parties.
- Delivered hardware for firewalls and awarded contract for software, installation, and training portion of procurement.
- Helped MCSD respond to a CMA-CBE request for information on the payment system in Egypt.

### Organizational Structure and Job Descriptions

In 1999, CMD completed and delivered a report on MCSD's organizational structure, functional statements, and job descriptions. An Arabic version of the report was delivered in January 2000. As reported previously, the MCSD management submitted the organizational structure and functional statements to the MCSD Board of Directors for review and discussion.

Two of the project's short-term advisors reviewed the report for quality-control purposes. John McPartland reviewed it from the standpoint of his experience working in a U.S. depository and clearing corporation, and Richard Smith reviewed the registry component, for which he is helping draft the executive regulations, rules, and procedures (see above and 3.1).

Mr. McPartland recommended that the report become a "living document," serving as a reference on MCSD operations and as the basis for considering organizational changes over the coming few years. He found the document to be of high quality, but suggested improving its structure to allow for easier access. He also suggested that the number of employees reporting directly to the Deputy Chairman and Managing Director be reduced, allowing him more time to represent the depository at external functions, both locally and internationally. Mr. Smith recommended limited modifications to the staffing of the registry service. A revised version of the report was delivered to the MCSD Deputy Chairman and Managing Director for review.

#### **Box 1: Training Programs Conducted Through DT2**

During the first quarter, the following training programs were conducted through the USAID-funded DT2 project:

- *Basic Corporate Finance* (TSN 693-1). This short course provided 25 MCSD professionals with a basic knowledge of financial analysis, valuation, and accounting techniques.
- *Overview of Management Functions and Skills* (TSN 699). Fifteen staff members attended the 97-hour short-course. It focused on management concepts, practices, and skills, including instruction in budgeting and work planning.
- *Mutual Funds* (TSN 731-2). Five MCSD staff members attended this short-course on the basics of mutual/investment fund operation and management. Topics included fund managers' obligations toward investors and legal and regulatory issues.
- *Developer 2000* (TSN 709-2). Seven MCSD IT staff members attended the course. It was an introductory course designed for new employees who are responsible for database administration and tuning.
- *Mastering Web Application Development* (TSN 713). Two MCSD staff members attended this course in website development and administration. The course was designed to provide participants with the ability to manage their institution's websites.

### **1.2 Strengthen Training Capacity**

First-quarter training activities were conducted primarily through the USAID-funded DT2 project. These activities are summarized in Box 1. CMD's other training activities were connected to ongoing work-plan initiatives—for example, cost analysis and budgeting activities (1.1), the securities lending and borrowing service (3.2), and bankruptcy provisions in Egyptian law (3.1).

## **2. Information Technology Assistance**

### **2.1 Upgrade Computer and Network Management Systems**

#### Firewall Procurement and Installation

The hardware for the firewalls at MCSD was delivered, and a contract was awarded for the software, installation, and training portions of the procurement. CMD expects the firewalls to be installed and operational before the end of the second quarter.

#### Network Management System

CMD began evaluating MCSD's network management systems at the end of the quarter. This activity was initially planned for 1999, but difficulty locating a qualified short-term advisor forced the project to reschedule the task. A short-term expatriate advisor, Joe Wiesenfeld (from Data General), was successfully recruited at the beginning of the year and began an initial evaluation in March 2000. CMD will release a report on his findings in the second quarter.

## **3. Legal and Regulatory Assistance**

### **3.1 Improve the Legal Structure Governing MCSD Operations**

#### Central Depository and Central Registry Law

At the end of the quarter, the People's Assembly's Economic Committee approved the Central Depository and Central Registry Law, and it was sent to the floor of the Assembly for approval. CMD helped MCSD in three areas while the law was being debated:

- "Pledge" provisions to ensure MCSD's right to utilize participant assets in the event of unsettled trades, making the depository a secured creditor.
- Better articulation of bankruptcy provisions under the proposed law.
- Recommended that the CBE be included in the policy-making and decision process regarding where the registry for government bonds will reside.

#### Executive Regulations Under the Central Depository and Central Registry Law

While the Central Registry and Central Depository Law is being considered by the People's Assembly, MCSD and CMD are jointly outlining and drafting executive regulations on licensing procedures, the self-regulatory framework, minimum licensing requirements, and conditions and standards for MCSD's depository, clearing, settlement, and registry services. The regulations will be finalized in Arabic and English during the second quarter for further MCSD review and discussion with the MOE and CMA.

Short-term advisor Richard Smith helped draft the executive regulation covering MCSD's registry function, a newly formalized MCSD responsibility under the draft law. Under current law, most issuers act as their own registrars. As drafted, the regulations will require all listed companies and companies undertaking public offerings to have these registers maintained by a separate entity. MCSD plans to assume this function in the Egyptian market by establishing a separate department to function as a Central Registry Services. It will

maintain lists of issuers' securities holders and perform duties related to these holders, including transfers of ownership, issuance of ownership documents, documentation of beneficial owners and nominees, and the calculation and distribution of dividends and interest payments. Many of these functions are already performed by MCSD, but without expressed legal recognition.

### **Bankruptcy Provisions and the Legal Risks Associated with Clearance and Settlement**

With the assistance of short-term advisor Marc Albert (a U.S. lawyer and receiver in bankruptcy proceedings), MCSD and CMD considered the legal risks associated with bankruptcy provisions in current Egyptian law and how these provisions affect MCSD's risk-containment role in the settlement and clearing system. A workshop was held on his findings during which extensive input was received from MCSD, the MOE, CBE, private law firms, and local and international banks.

There was consensus among workshop participants that Egyptian bankruptcy law requires modifications in seven areas (see Box 2). CMD will release a full report on Mr. Albert's findings during the second quarter.

### **Payment System**

CMD helped MCSD respond to a request for information from the CBE and CMA on the payment system in Egypt. The request for information was generated by a Bank for International Settlement report, entitled "Core Principles for Systemically Important Payment Systems." CMD's comments highlighted the need for a system that accommodates the finality of payment, allowing true delivery-versus-payment (DVP) to be achieved in the Egyptian settlement system for securities. CMD will follow up on this crucial topic later in the year when it assesses the DVP capabilities in the Egyptian securities settlement system.

#### **Box 2: Major Issues Discussed During Bankruptcy Workshop**

The participants in the first bankruptcy workshop agreed that current bankruptcy provisions in Egyptian law do not ensure the following with regard to the clearance and settlement of securities:

- The priority of customers and their assets over the claims of creditors (priority of claim)
- That customer money and securities held by the broker are returned to the customers (segregated assets)
- That SGF contributions are not preferential payments or fraudulent preferences that can be voided by the syndic, known in the U.S. as the "trustee" in bankruptcy (exempt contributions)
- That money and securities pledged to MCSD can be used by MCSD without delay to complete settlement (no stay of proceedings).
- That netting of cash and securities is binding on the syndic (no "cherry picking")
- That the substitution of MCSD for a defaulting buyer or seller is binding on the syndic (novation)
- That MCSD can suspend or terminate its service contract with a defaulting participant (termination of contract)

These seven areas have a significant impact on MCSD's risk-containment function, in general, and on the very purpose of the SGF, securities lending and borrowing service, and the investor protection fund, in particular. Throughout the year, the project will address these issues with the workshop participants and other interested parties with the aim of introducing appropriate legal amendments, hopefully to the proposed capital market law.

### 3.2 Securities Lending and Borrowing Service and SGF Assistance

#### Securities Lending and Borrowing Service

CMD and short-term advisor Charles Rubin drafted a discussion paper on the nature of securities lending and borrowing services. An initial workshop, attended by MCSD and representatives from local and international market participants, was also conducted.

The report and workshop covered the basic aspects of a securities and lending facility, which MCSD will be mandated to provide under the new Central Depository and Central Registry Law. It is also a recommendation of the Group of Thirty on Clearing and Settlement (G-30). Such a facility does not currently exist in the Egyptian capital market. When created, it will give market participants access to a source of securities liquidity at settlement time if their securities position is not sufficient to meet obligations to MCSD. The report provides international best practices for implementing the service, and outlines the basic accounting entries according to U.S. securities accounting standards (to be used by MCSD as a model).

CMD received comments on the report at the beginning of the second quarter, after which MCSD and CMD arranged a second workshop on April 27. These events will be discussed in the project's next QPR.

Mr. Rubin also worked with MCSD computer programmers, explaining the concept of the lending and borrowing service and the basic programming requirements for its implementation.

#### Settlement Guarantee Fund (SGF)

With CMD assistance, the SGF was successfully launched in January 2000. The project and short-term expatriate advisor Charles Rubin provided assistance with fund startup, answering questions from MCSD and participants. CMD also helped MCSD with the periodic recalculation of member contributions.

At the end of the reporting period, the SGF was operating successfully with paid-up capital of approximately LE27 million (\$8 million), all of which was contributed by MCSD's 149 member firms. According to MCSD, the SGF reduced the number of unsettled trades on T+3 to one third what it was in the fourth quarter of 1999. There have been no unsettled trades on T+5 since the launch of the fund. Citibank, Egyptian-British Bank, and State Street Bank told the project that the SGF has served to increase investor confidence in the Egyptian market.

#### **4. Public Awareness and Outreach**

##### **4.1 Implement Integrated Communications Strategy**

During the second quarter, CMD will engage a short-term advisor from subcontractor Hill & Knowlton to help implement the communications strategy developed in 1999.

##### **4.2 Develop Sustainable Website**

CMD held preliminary discussions with MCSD about website development. Assistance will be initiated in this area during the second half of the year.

## SECTION V

---

### Securities Industry

CMD delivered a memorandum to help ECMA outline its development plans for the CMA Chairman. The memorandum concentrates on the association's plan to evolve into a self-regulatory organization (SRO) serving the broker-dealer community. The project also trained new ECMA staff in database management and agreed to assist EIMA with a new work-plan task—developing guidelines for investment fund performance measurement.

#### Major Achievements: First Quarter 2000

- Delivered paper on the roles and responsibilities of self-regulatory organizations (SROs), which ECMA used as the basis for a memorandum to the CMA Chairman.
- Trained staff in database operation and management.

CMD continued its close working relationship with ECMA Executive Director Mr. Sameh Sabbour and EIMA Executive Director Mr. Hatem El Gamal during the quarter. For both ECMA and EIMA, the project's activities are focused in two areas—institutional development and training, and public awareness and outreach.

### A. Egyptian Capital Market Association (ECMA)

#### 1. Institutional Development and Training

##### 1.1 Develop Organizational and Membership Structures Needed to Become an SRO

To help ECMA present its development plans to the CMA Chairman, CMD delivered a memorandum summarizing the project's findings on SRO development in Egypt. The memorandum, which was delivered in Arabic, covered three major topics:

- SRO definitions, characteristics, and responsibilities
- Mechanisms of establishing SROs in the Egyptian capital market
- The role of ECMA as an SRO

ECMA used the memorandum as the foundation of a discussion paper that it submitted to the CMA Chairman. The paper is designed to serve as the basis for discussion with the CMA on the association's future role in the market.

##### 1.2 Improved and Expanded Training and Certification Programs at ECMA

The CMD-developed database of training programs and participants was delivered to ECMA. CMD trained ECMA staff in using the database and solved some minor technical problems during the quarter.

## **2. Information Technology Assistance**

In addition to the database for training programs and participants, the project also made some minor technical modifications to a database to track the employees of member firms. By the end of the quarter, both databases were operating well. Further training may be required for both MS Access databases as staffing changes occur.

## **3. Legal and Regulatory Assistance**

CMD's legal and regulatory assistance to ECMA is related to the association's SRO-development efforts (see above, Section 1.1).

## **4. Public Awareness and Outreach**

### **4.1 Develop a Forum on Financial Instruments and Assist with ECMA's Existing Forum**

The forum on new financial instruments for corporate treasurers, chief financial officers, and chief executive officers will start later in the year.

### **4.2 Develop Sustainable Website**

This task is scheduled for the second half of the year.

## **B. Egyptian Investment Managers Association (EIMA)**

### **1. Institutional Development and Training**

#### **1.1 Develop Certification Program at EIMA**

EIMA has decided to develop an equivalent to the CFA program offered by the U.S.-based Association for Investment Management and Research (AIMR). CMD will facilitate contacts with AIMR, enabling EIMA to benefit from AIMR's experience in this area.

CMD has also offered to provide EIMA with a limited amount of equipment to start their training department. Specification for the procurement will be outlined in the second quarter, and a purchase order will be issued.

#### **1.2 Assist EIMA with Organizational Development**

During the first quarter, EIMA's Board of Directors began contemplating whether the association should seek to become an SRO or a lobby organization for the investment management community. To help board members understand the issues involved with becoming an SRO, CMD will provide a paper on the nature of SROs for investment managers in the U.S. and other financial markets. The paper, scheduled for completion in the second quarter, will outline the basic functions and responsibilities of such associations.



### **1.3 Additional Institutional Development and Training Activities**

As part of its role in the industry and to help increase investor confidence in the market, EIMA is developing standard guidelines for measuring the performance of investment funds and standards for promoting these funds among investors and the general public. CMD will provide a short-term expatriate advisor to help draft these guidelines and standards during the second or third quarters, depending on the availability of the candidate recruited for the assignment.

## **4. Public Awareness and Outreach**

### **4.1 Increase Effectiveness of EIMA's Public Outreach and Awareness Efforts**

EIMA has yet to receive recognition as a non-governmental organization. When recognition is received, CMD will help organize a public event.

## SECTION VI

---

### Central Bank of Egypt

CBE managers and staff reached consensus and buy-in on the basic characteristics and benefits of an electronic book-entry registry for government securities after six CMD workshops conducted during the first quarter. CMD also delivered a report on the requirements for the creation of primary dealers (developed with U.S. Treasury Advisor Keith Krchak) and designed second-quarter workshops on new financial instruments.

Throughout the quarter, CMD continued its close working relationship with CBE Deputy Governor Dr. Mahmoud Abul-Eyoun, and Senior Advisors to the Governor Mr. Mostafa Eweis and Dr. Mohamed El Barbary.

#### Major Achievements: First Quarter 2000

- Delivered report on the requirements for primary dealers of government securities (with U.S. Treasury)
- Conducted five workshops for CBE officials on the requirements and purpose of an electronic book-entry registry for government securities. Achieved consensus and buy-in on the characteristics and benefits of developing the registry.
- Proposed methods of establishing market-based auctions for government bonds.

As in 1999, the project's Year-2000 activities are focused in two basic areas:

- Institutional Development and Training
- Information Technology Assistance

CMD also provides legal and regulatory assistance to the CBE as it relates to ongoing tasks.

### 1. Institutional Development and Training

#### 1.1 Facilitate the Introduction of New Financial Instruments

CMD proposed two methods of using market-based auctions for Egypt's largest-ever bond rollover. One of the proposals discussed the use of a new financial instrument, reservable cash management bills, to accomplish CBE objectives. While the proposal was not accepted, it provided senior officials with a basic understanding of the financial instrument and the benefits its introduction would yield (see below, Section 1.2).

In the second quarter, CMD will conduct a seminar series for CBE management and staff on money markets and money market instruments. The series will cover cash management bills (reservable), negotiable certificates of deposit with staggered reserve requirements, and reverse repurchase transactions. The CBE departments responsible for approving and regulating new financial instruments have been invited to attend. They include the Securities Department and the Bank Supervision Department (in particular the Credit Unit). U.S. Treasury Advisor Mr. Keith Krchak will assist with the seminars.

## 1.2 Improve the Efficiency of Government Securities Markets

### Market-Based Auctions for Government Securities

With the promulgation of the bond-dealer decree by the Minister of Economy and Foreign Trade, the legal apparatus for dealer-based trading in government securities and corporate bonds is in place. After the decree was issued, CMD worked with the CMA to draft the necessary forms and procedures for the implementation of the decree (see Section II, 1.3). At the CBE, the project is working to establish market-based auctions for government securities—a necessary condition for vibrant secondary markets.

During the first quarter, CMD and U.S. Treasury Advisor Keith Krchak advised the CBE and Ministry of Finance (MOF) on how to use market-based auctions to roll over Egypt's largest-ever issue of government bonds. CMD and U.S. Treasury jointly developed an initial proposal for the rollover, which was delivered to the MOF and CBE. When the proposal was not accepted by the CBE, CMD and U.S. Treasury independently developed and delivered additional proposals. CMD's proposal suggested using cash management bills (reservable) to overcome liquidity problems, one of the CBE's concerns about the original proposal.

After reviewing the second set of CMD and U.S. Treasury proposals, the CBE indicated that it was premature to change long-standing practices for issuing T-bonds. After the end of the reporting period, the CBE offered the LE3 billion in 7-year bonds at a fixed interest rate of 11%, and they were oversubscribed by approximately 40%. Given the level of demand, CMD believes that market-based auctions may have allowed the CBE to cover the offering at a lower cost to the government.

In the second quarter, CMD will propose that the CBE allow banks to use T-bills with 45 days or less remaining to maturity as a portion of their 15% reserve requirement. This measure would facilitate the introduction of market-based auctions for T-bills by increasing demand for new issues and generating liquidity in the secondary market.

### Primary Dealers for Government Securities

CMD and U.S. Treasury jointly developed a report on the requirements for primary dealers of government securities. The report specifies dealers' obligations to the CBE and the CBE's obligations toward the dealers. It was delivered to the CBE Governor and Deputy Governor, as well as to the MOF. CMD and U.S. Treasury will discuss the report with senior officials at the bank and the ministry during the second quarter.

## 2. Information Technology Assistance

### 2.1 Develop a Book-Entry Registry for Government Securities

By holding a series of six workshops for approximately 30 CBE managers and staff, CMD has helped the CBE establish broad consensus and buy-in on the basic characteristics and benefits of an electronic book-entry registry for government securities. During the second quarter, the CMD and CBE IT teams will begin specifying the system's technical requirements.

While CMD was holding discussions with the CBE on the book-entry registry, it became apparent that bank officials were concerned about provisions in the new Central Depository and Central Registry Law that suggested MCSD, not the CBE, would be responsible for holding the registry for government bonds. CMD advised that the CBE be included in the policy-making and decision process regarding where the registry will reside.

#### Training Programs Conducted through DT2

The following training programs were provided to CBE officials through the USAID-funded DT2 project:

- *Computer Training* (TSN 733). A basic computer course for 17 CBE staff members. The course has four modules: introduction to operating systems, introduction to communications networks, data presentation, and using computers for statistical analysis and financial forecasting.
- *The Role of Banks in Emerging Capital Markets* (TSN 743). Ten officials attended this short-course on the role of banks in emerging capital markets and stock exchanges, with particular reference to the Egyptian context. It provided them with basic skills in financial analysis related to capital markets.
- *Capital Markets: Functions, Tools, and Parties Involved* (TSN 742). Ten officials attended this short-course designed to expose them to the fundamentals of the capital market industry and the legislation that governs the operation of the capital market.
- *Mutual Funds* (TSN 731). Five CBE staff members attended this short-course on the basics of mutual/investment fund operation and management. Topics included fund managers' obligations toward investors and legal and regulatory issues.

## SECTION VII

---

### Ministry of Economy and Foreign Trade

CMD's assistance to the MOE is focused in two areas: reviewing and commenting on the new capital market law and improving the ministry's website. CMD has yet to receive a draft copy of the new capital market law for review. Work in this area will be started when the draft law is received. On the website, improvements were completed by the end of the reporting period, and the project expects the new site to be officially launched during the second quarter.

#### Major Achievement: First Quarter 2000

- Completed improvements to the MOE website, including a redesign of the site's visual look and the development of database and search features.

### 3. Legal and Regulatory Assistance\*

#### 3.1 Assist with Review and Modification of New Capital Market Law

CMD will commence work in this area when a draft of the new Capital Market Law is received. The project also plans to help the MOE and CMA draft executive regulations to accompany the new law.

### 4. Public Outreach and Education

#### 4.1 Improve the Look and Content of the MOE Website

Working closely with MOE staff members, CMD completed a redesigned and enhanced Arabic and English website for the ministry. The site's new features include a searchable database, a back-end management system to allow for easy updating of information, and more content on e-commerce and trade. It allows for key word searches of over 150 pages of economic data and analysis. To prepare the MOE staff to maintain the site, CMD conducted a workshop on World Wide Web (WWW) technologies.

---

\* The activities and outcomes in this section maintain the same numbering system we have used throughout this QPR and the work plan. There are no institutional development or automation activities currently underway for the MOE.

## SECTION VIII

---

### Monitoring and Evaluation

CMD monitors its progress along three dimensions—the work plan’s major outcomes, intermediate results, and long-range outcomes. The intermediate results and long-range outcomes were determined by USAID and designed to orient CMD’s work and evaluate its progress over the life of the project.

Monitoring progress under the work plan is based on the outcomes presented in the institutional sections and the project’s expected progress towards those outcomes during 2000. *Some of the outcomes will not be accomplished in the current year and a few are ongoing aspects of the capital market’s development. In these cases, we track our progress based on the expected year-end results discussed in the work plan.*

In addition, completion of many of the outcomes depends on our institutional partners’ progress. For example, CMD helped draft new regulations, but promulgation of these regulations, the successful completion of the outcome, is the prerogative of the ministries and institutions involved. The steps necessary to complete the outcomes, as well as progress to date, are discussed in the institutional sections of this report and summarized in the table below (Section A).

**A. Quarterly Monitoring and Evaluation System**

| Institution | Outcome  | Major Year-2000 Activities   | Percent Complete <sup>1</sup> | Progress to Date in 2000   |
|-------------|--|--|-------------------------------|--|
| <b>CMA</b>  | 1.1 Corporate Planning and Organizational Development (completion after year-end)                  | <ul style="list-style-type: none"> <li>• Level 2 of process model</li> <li>• Automation of key activities</li> <li>• Assistance developing procedures manuals for major functions</li> <li>• Facilitate development of three-year, rolling corporate plan</li> </ul> | 10%                           | <ul style="list-style-type: none"> <li>• Completed and delivered level one of process model for all CMA Departments (Q1).</li> <li>• Started work on level two of process model for Market Operations Sector (Q1).</li> </ul>  |
|             | 1.2 Improved and Integrated Surveillance, Compliance, and Broker Registration and Testing Programs | <ul style="list-style-type: none"> <li>• Surveillance program and training</li> <li>• Broker compliance and field inspection</li> <li>• Broker registration and testing</li> </ul>   | 10%                           | <ul style="list-style-type: none"> <li>• Finalized and delivered technical specifications for remodeled surveillance workspace (Q1).</li> </ul>  |
|             | 1.3 Facilitate the Introduction of New Financial Instruments (ongoing)                             | <ul style="list-style-type: none"> <li>• Workshops</li> <li>• Legal and regulatory assistance, as required</li> </ul>  | 45%                           | <ul style="list-style-type: none"> <li>• Bond decree signed and issued by Minister of Economy and Foreign Trade (Q1).</li> <li>• Conducted five workshop sessions on money markets and money market instruments (Q1).</li> <li>• Completed and delivered discussion paper, in Arabic and English, on venture capital and turn-around funds (Q1).</li> <li>• Drafted standard forms for bond dealers (Q1).</li> </ul> |

<sup>1</sup> The percentages are based on work toward completion of the activities and goals that CMD plans to accomplish during 2000, not the overall completion of the outcomes, some of which will take several additional years to accomplish. For a discussion of the project's goals for the year, see the institutional sections of this report and the Year-2000 Work Plan (under "timing and deliverables" for each outcome).

| Institution            | Outcome  | Major Year-2000 Activities   | Percent Complete | Progress to Date in 2000   |
|------------------------|--|--|------------------|--|
| <b>CMA<br/>(cont.)</b> | 1.4 Increase the Functional Capacity and Abilities of the CMA Staff (ongoing)                                | <ul style="list-style-type: none"> <li>On-the-job training</li> <li>Workshops</li> </ul>   | 25%              | <ul style="list-style-type: none"> <li>Conducted course on credit risk analysis (Q1).</li> <li>Conducted roundtable on credit rating and credit risk analysis (Q1).</li> <li>Provided specialized technical assistance in a variety of areas, including prospectuses for bond offerings, new offshore investment funds, and hybrid securities (Q1).</li> <li>Provided on-the-job training to corporate finance staff throughout quarter (Q1).</li> </ul> |
|                        | 1.5 <i>Additional Institutional Development and Training Activities</i>                                      | <ul style="list-style-type: none"> <li><i>Support study of demand for securities in Egypt</i></li> </ul>   | 25%              | <ul style="list-style-type: none"> <li><i>Agreed to help fund study of the demand for securities in the Egyptian market (Q1).</i></li> <li><i>Participated actively in steering committee meetings (Q1).</i></li> <li><i>Researchers developed outlines of report sections and lists of sources, and started researching topics (Q1).</i></li> <li><i>Engaged short-term expatriate advisor to review outlines and sources (Q1).</i></li> </ul>          |
|                        | 2.1 Build an Electronic Database for Filing and Retrieving Corporate Information (completion after year-end) | <ul style="list-style-type: none"> <li>Outline system requirements</li> <li>Draft database specifications</li> </ul>   | 10%              | <ul style="list-style-type: none"> <li>Short-term advisor began assessment of needs and discussions of system capabilities with CMA management and staff (Q1).</li> </ul>  |
|                        | 2.2 Improve the Functioning and Security of the CMA's Electronic Systems                                     | <ul style="list-style-type: none"> <li>Firewall installation and testing</li> <li>Automation of key activities (included as an aspect of CMA 1.1)</li> </ul>   | 80%              | <ul style="list-style-type: none"> <li>Delivered firewall hardware (Q1).</li> <li>Issued contract for firewall software, installation, and training (Q1).</li> </ul>   |
|                        | 2.3 Develop Data Archiving Capability  | <ul style="list-style-type: none"> <li>Determine specifications</li> <li>Procure software and hardware</li> </ul>  | 5%               | <ul style="list-style-type: none"> <li>Began developing specifications with CMA management (Q1).</li> </ul>  |
|                        | 3.1 Improve Capital Market's Legal and Regulatory Structure (ongoing)  | <ul style="list-style-type: none"> <li>Review new Capital Markets Law</li> <li>Draft rules and regulations</li> <li>Improve disclosure requirements</li> </ul> | 25%              | <ul style="list-style-type: none"> <li>Examined financial disclosure requirements (Q1).</li> <li>Conducted workshop on financial disclosure (Q1).</li> <li>Rule on Rule Making (drafted in 1999) sent to CMA Board of Directors for approval (Q1).</li> </ul>  |



| Institution            | Outcome   | Major Year-2000 Activities  | Percent Complete | Progress to Date in 2000   |
|------------------------|---|---|------------------|--|
| <b>CMA<br/>(cont.)</b> | 3.2 Establish Investor Protection Fund (completion after year-end)        | <ul style="list-style-type: none"> <li>Propose structure and funding mechanism</li> <li>Draft rule and regulations</li> </ul>   | 10%              | <ul style="list-style-type: none"> <li>Began examination of bankruptcy provisions in Egyptian law, which will have a major effect on the construction of the fund (Q1).</li> </ul>   |
|                        | 3.3 Advise and Assist on the Creation of SROs (completion after year-end) | <ul style="list-style-type: none"> <li>Legal and regulatory requirements</li> <li>Help develop CMA requirements for SROs</li> </ul>   | 0%               | <ul style="list-style-type: none"> <li>Start pending receipt of draft of new Capital Markets Law.</li> </ul>   |
|                        | 4.1 Train Financial Journalists   | <ul style="list-style-type: none"> <li>Press Forum, thematic sessions</li> <li>Press Forum, technical sessions</li> <li>Reporting techniques (broadcasters)</li> <li>Financial English</li> </ul> | 15%              | <ul style="list-style-type: none"> <li>Conducted thirteenth press forum (Q1).</li> <li>Outlined structure of sessions on reporting techniques for broadcasters (Q1).</li> <li>Signed contract with Arab Academy for financial market training for journalists, "technical sessions" (Q1).</li> </ul>   |
|                        | 4.2 Improved Press Relations and Outreach Capacity                        | <ul style="list-style-type: none"> <li>Help reorganize Press Relations Department</li> <li>On-the-job training and assistance</li> <li>Develop brochures on key capital market topics</li> </ul>  | 30%              | <ul style="list-style-type: none"> <li>Provided extensive on-the-job training to CMA public relations manager (Q1).</li> <li>Produced fact sheet and arranged interviews for Chairman with major newspapers to increase understanding of cement company sales (Q1).</li> <li>Helped local newspaper establish capital markets page (Q1).</li> <li>Developed template for weekly CMA bulletin (Q1).</li> <li>Outlined investor education brochures and CMA annual report, and gathered information (Q1).</li> </ul> |
|                        | 4.3 Establish Sustainable Website   | <ul style="list-style-type: none"> <li>Upgrade site, adding dynamic content</li> <li>Training in updating and adding information</li> <li>Training in site maintenance</li> </ul>                 | 90%              | <ul style="list-style-type: none"> <li>Modified some visual content in response to CMA requests (Q1).</li> <li>CMA management reviewed and approved site content in Arabic and English (Q1).</li> <li>Secured permission to host site on IDSC server (Q1).</li> <li>Provided workshop on website development and maintenance (Q1).</li> <li>Facilitated DT2 training in website development and maintenance (Q1).</li> </ul>   |

| Institution        | Outcome  | Major Year-2000 Activities  | Percent Complete | Progress to Date   |
|--------------------|--|---|------------------|--|
| <b>CMA (cont.)</b> | 4.4 Improve Quality of Financial Reporting on Television (completion after year-end) | <ul style="list-style-type: none"> <li>• Support for financial segment and closing report</li> <li>• Pilot for educational video series</li> </ul>  | 20%              | <ul style="list-style-type: none"> <li>• Helped launch market closing report (Q1).</li> <li>• Provided ongoing assistance with graphical content of closing report and nightly financial news segment (Q1).</li> </ul>   |
|                    |  |   |                  |  |
| <b>CASE</b>        | 1.1 Corporate Planning and Institutional Development (completion after year-end)     | <ul style="list-style-type: none"> <li>• Training programs for CASE employees</li> <li>• Facilitate development of three-year, rolling corporate plan</li> <li>• Assistance restructuring of Evergreen Training Center</li> </ul> | 0%               | <ul style="list-style-type: none"> <li>• Scheduled to start in third quarter.</li> </ul>   |
|                    | 1.2 Improve Procedures for Managing Market Operations (completion after year-end)    | <ul style="list-style-type: none"> <li>• Improvement of OTC market</li> <li>• New corporate actions procedures</li> <li>• Development of broker registration and testing program</li> </ul>                                       | 20%              | <ul style="list-style-type: none"> <li>• Finalized report recommending improvements to OTC market (Q1).</li> </ul>   |
|                    | 2.1 Support the Improvement of Data-Processing Systems                               | <ul style="list-style-type: none"> <li>• Arabization of EFA user documentation</li> </ul>   | 50%              | <ul style="list-style-type: none"> <li>• Received user documentation from CASE and started Arabization process (Q1).</li> <li>• Delivered 180 workstations, completing the main portion of the hardware procurement to support the exchange's new trading system software (Q1).</li> </ul> |
|                    | 3.1 Improve Current Rules Governing Exchange   | <ul style="list-style-type: none"> <li>• Review of membership and listing rules</li> <li>• Drafting new dispute resolution rules and procedures</li> </ul>  | 10%              | <ul style="list-style-type: none"> <li>• Continued review of membership rules (Q1).</li> </ul>   |
|                    | 3.2 Advise and Assist on the Creation of SROs (completion after year-end)            | <ul style="list-style-type: none"> <li>• Assistance to be determined</li> </ul>   | 0%               | <ul style="list-style-type: none"> <li>• Start pending receipt of draft of new Capital Markets Law.</li> </ul>   |

| Institution         | Outcome   | Major Year-2000 Activities   | Percent Complete | Progress to Date  |
|---------------------|---|--|------------------|---|
| <b>CASE (cont.)</b> | 4.1 Enhance Awareness of Investors, Students, and the General Public          | <ul style="list-style-type: none"> <li>• Pilot for an educational video series</li> <li>• Introduction of stock market game</li> <li>• Develop brochures on key capital market topics</li> </ul>                                       | 40%              | <ul style="list-style-type: none"> <li>• Stock market game pilot successfully implemented at selected secondary schools and universities (Q1).</li> <li>• Delivered draft report outlining the requirements and timeline for development of an investor information center and hotline (Q1).</li> <li>• Outlined educational brochures and discussed them with CASE Marketing Department (Q1).</li> </ul> |
|                     | 4.2 Help Organize and Conduct Major Events                                    | <ul style="list-style-type: none"> <li>• Opening of stock exchange renovations</li> <li>• International conference</li> </ul>  | 20%              | <ul style="list-style-type: none"> <li>• Continued production of video new release to publicize opening of new trading floor and introduction of new trading system (Q1).</li> </ul>  |
|                     |   |  |                  |   |
| <b>MCSD</b>         | 1.1 Document MCSD Services, Systems, and Controls (completion after year-end) | <ul style="list-style-type: none"> <li>• Documentation of internal procedures</li> <li>• Documentation of external procedures</li> <li>• Documentation and drafting of rules</li> <li>• Establishment of user advisor group</li> </ul> | 10%              | <ul style="list-style-type: none"> <li>• Began developing budgeting manual (Q1).</li> <li>• Drafted rules for central registry function (Q1).</li> </ul>  |
|                     | 1.2 Strengthen Training Capacity  | <ul style="list-style-type: none"> <li>• Implementation of training manual</li> <li>• Development of course outlines, training materials, and training plans</li> </ul>  | 0%               | <ul style="list-style-type: none"> <li>• Scheduled to start in second quarter.</li> </ul>   |
|                     | 2.1 Upgrade Computer and Network Management Systems                           | <ul style="list-style-type: none"> <li>• Supervise installation of firewall</li> <li>• Procurement of server upgrade</li> <li>• Evaluation and upgrade of network management system</li> </ul>   | 50%              | <ul style="list-style-type: none"> <li>• Delivered server upgrade (Q1).</li> <li>• Delivered firewall hardware (Q1).</li> <li>• Signed contract for firewall software, installation, and training (Q1).</li> <li>• Started evaluation of network management systems (Q1).</li> </ul>  |

| Institution             | Outcome   | Major Year-2000 Activities   | Percent Complete | Progress to Date   |
|-------------------------|---|--|------------------|--|
| <b>MCSD<br/>(cont.)</b> | 3.1 Improve the Legal Structure Governing MCSD Operations (ongoing)   | <ul style="list-style-type: none"> <li>• Help finalize new Central Depository Law and executive regulations</li> <li>• Review operations from standpoint of new Central Depository Law</li> <li>• Review new Capital Market Law</li> <li>• Examine DVP in Egyptian market</li> </ul> | 30%              | <ul style="list-style-type: none"> <li>• Assisted with finalization of draft Central Depository and Central Registry Law (Q1).</li> <li>• Drafted executive regulations to accompany the new law, including a regulation covering the registry component (Q1).</li> <li>• Delivered memorandum on payment system for securities in Egypt (Q1).</li> <li>• Investigated and conducted workshop on legal risks associated bankruptcy provisions in current Egyptian law (Q1).</li> </ul> |
|                         | 3.2 Establish Securities Lending and Borrowing Services and Assist with the Implementation of the SGF (completion after year-end) | <ul style="list-style-type: none"> <li>• Assist with implementation of SGF</li> <li>• Outline requirements for securities lending and borrowing service</li> <li>• Draft rule, procedures, and regulations</li> </ul>  | 25%              | <ul style="list-style-type: none"> <li>• Assisted with SGF launch and periodic recalculation of participant contributions (Q1).</li> <li>• Drafted and distributed discussion paper in Arabic and English on securities lending and borrowing (Q1).</li> <li>• Conducted workshop for MCSD and market participants on securities lending and borrowing (Q1).</li> </ul>  |
|                         | 4.1 Implement the Integrated Communications Strategy, Focusing on Domestic and Regional Audiences                                 | <ul style="list-style-type: none"> <li>• Implement communications strategy</li> <li>• Develop new means of communicating MCSD messages</li> </ul>  | 0%               | <ul style="list-style-type: none"> <li>• Scheduled to start in second quarter.</li> </ul>  |
|                         | 4.1 Develop Sustainable Website   | <ul style="list-style-type: none"> <li>• Develop and launch website</li> <li>• Training for staff</li> </ul>   | 15%              | <ul style="list-style-type: none"> <li>• Facilitated DT2 training in website development and maintenance (Q1).</li> <li>• Assistance with site development scheduled to start later in the year.</li> </ul>  |

| Institution    | Outcome  | Major Year-2000 Activities   | Percent Complete | Progress to Date  |
|----------------|--|--|------------------|---|
| <b>SI/ECMA</b> | 1.1 Develop Organizational and Membership Structures Needed to Become an SRO (completion after year-end) | <ul style="list-style-type: none"> <li>• Assistance modifying membership structure</li> <li>• Assistance modifying organizational structure</li> <li>• Ongoing legal and regulatory review and assistance</li> </ul> | 10%              | <ul style="list-style-type: none"> <li>• Delivered paper on the roles and responsibilities of self-regulatory organizations (SROs), which ECMA used as the basis for a memorandum to the CMA Chairman (Q1).</li> </ul>  |
|                | 1.2 Improved and Expanded Training and Certification Programs  | <ul style="list-style-type: none"> <li>• Assistance expanding training programs</li> <li>• Development of training department</li> <li>• Research on cooperative agreements</li> </ul>                               | 5%               | <ul style="list-style-type: none"> <li>• Trained staff in database operation and management, including database to track training programs and trainees (Q1).</li> </ul>  |
|                | 4.1 Develop a Forum on Financial Instruments and Assist with ECMA's Existing Forum (ongoing)             | <ul style="list-style-type: none"> <li>• Development assistance on forum for corporate treasurers, CFOs, and CEOs</li> <li>• Assistance with existing forum</li> </ul>   | 0%               | <ul style="list-style-type: none"> <li>• Scheduled to start in second quarter.</li> </ul>   |
|                | 4.2 Develop Sustainable Website  | <ul style="list-style-type: none"> <li>• Develop and launch website</li> <li>• Training for staff</li> </ul>   | 0%               | <ul style="list-style-type: none"> <li>• Scheduled to start in third quarter.</li> </ul>  |
|                |  |  |                  |   |
| <b>SI/EIMA</b> | 1.1 Develop Certification Program  | <ul style="list-style-type: none"> <li>• Information on similar programs</li> <li>• Training-of-trainers</li> <li>• Ongoing advice and assistance</li> </ul>   | 0%               | <ul style="list-style-type: none"> <li>• Scheduled to start in second quarter.</li> </ul>   |
|                | 1.2 Assist EIMA with Organizational Development  | <ul style="list-style-type: none"> <li>• Provide information on similar associations</li> <li>• Ongoing advice and assistance</li> </ul>   | 0%               | <ul style="list-style-type: none"> <li>• Scheduled to start in second quarter.</li> </ul>   |
|                | 1.3 Additional Institutional Development and Training Activities   | <ul style="list-style-type: none"> <li>• Develop performance measurement guidelines.</li> </ul>  | 0%               | <ul style="list-style-type: none"> <li>• Agreed to provide short-term expatriate advisor to help develop guidelines for measuring investment fund performance and standards for publicizing investment funds. Work on activity to commence in second quarter (Q1).</li> </ul> |

| Institution            | Outcome   | Major Year-2000 Activities   | Percent Complete | Progress to Date   |
|------------------------|---|--|------------------|--|
| <b>SI/EIMA (cont.)</b> | 4.1 Increase Effectiveness of EIMA's Public Outreach and Public Awareness Efforts           | <ul style="list-style-type: none"> <li>• Assist with media event</li> <li>• Assist with website development</li> </ul>   | 0%               | <ul style="list-style-type: none"> <li>• Pending official government recognition of EIMA.</li> </ul>   |
|                        |   |  |                  |  |
| <b>CBE</b>             | 1.1 Facilitate the Introduction of New Financial Instruments (ongoing)                      | <ul style="list-style-type: none"> <li>• Development of executive discussion papers</li> <li>• Executive seminars and workshops</li> <li>• Legal and regulatory advice and assistance</li> </ul>   | 15%              | <ul style="list-style-type: none"> <li>• Proposed using cash management bills (reservable) as part of developing market-based auction for government bond rollover (see 1.2, Q1).</li> <li>• Workshop on money markets and money market instruments scheduled for second quarter.</li> </ul> |
|                        | 1.2 Improve the Efficiency of the Government Securities Markets (completion after year-end) | <ul style="list-style-type: none"> <li>• Work toward establishment of market-based auctions</li> <li>• Assist with implementation of dealer-based trading in secondary market</li> <li>• Help demarcate legal and regulatory responsibilities</li> <li>• Recommend selection criteria for primary dealers</li> </ul> | 20%              | <ul style="list-style-type: none"> <li>• Proposed two methods of implementing market-based auctions for government bond rollover (Q1).</li> <li>• Delivered report on requirements and responsibilities of primary dealers (Q1).</li> </ul>  |
|                        | 2.1 Develop a Book-Entry Registry for Government Securities (completion after year-end)     | <ul style="list-style-type: none"> <li>• Select and train working group</li> <li>• Complete functional analysis report</li> </ul>  | 25%              | <ul style="list-style-type: none"> <li>• Conducted six workshops for CBE personnel on book-entry registry (Q1).</li> <li>• Achieved consensus among CBE managers and staff on the basic characteristic and benefits of book-entry registry (Q1).</li> </ul>                                  |

| Institution | Outcome   | Major Year-2000 Activities   | Percent Complete | Progress to Date   |
|-------------|---|--|------------------|--|
| MOE         | 3.1 Assist with Review and Modification of New Capital Market Law (completion after year-end) | <ul style="list-style-type: none"> <li>• Review and comment as requested</li> <li>• Draft executive regulations, as requested</li> </ul> | 0%               | <ul style="list-style-type: none"> <li>• MOE has not delivered draft law (Q1).</li> </ul>  |
|             | 4.1 Improve the Look and Content of the MOE Website   | <ul style="list-style-type: none"> <li>• Improve visual look of site</li> <li>• Add additional content and features</li> </ul>           | 90%              | <ul style="list-style-type: none"> <li>• Redesigned visual look of the site (Q1).</li> <li>• Designed and installed searchable databases for documents and statistics produced by the ministry (Q1).</li> <li>• Conducted workshop on website development and maintenance (Q1).</li> </ul> |

## **B. Intermediate Results\***

During 1999, CMD exceeded all three of its USAID-defined intermediate results. The project continues to monitor these results in 2000, identifying those areas where CMD has had an impact. As discussed in CMD's previous QPRs and work plan, the intermediate results are indicators that reflect the size and activity of the market. While there is no *measurable* direct causal relationship between these indicators and the policy, regulatory, and institutional progress made by the Egyptian government and/or the project, progress in these areas has a positive, albeit *difficult-to-measure*, impact on market size and activity. CMD's activities continue to show results in these areas, and market activity continues to expand.

For example, promulgation of the bond-dealer decree during the first quarter of 2000 is expected to lead to increased trading activity in both corporate and government bonds (see Section II and VI). In addition, several major international firms indicated that the launch of the SGF has increased their confidence in the Egyptian market and their resulting willingness to invest.

As noted in our Year-2000 Work Plan, CMD's activities are designed to improve the infrastructure that underpins the Egyptian capital market and to inform investors and potential investors of these improvements. The result of these developments will be increased investor confidence and investment. Nonetheless, one should keep in mind that political, economic, and social events, both locally and internationally, have a significant impact on fluctuations in market size and activity, particularly in emerging markets, and many of these events are beyond the control of individual governments.

### **Value of Shares/Bond Traded**

In the project's contract, the value of shares and bonds traded was projected to be LE15 billion in 1998, with LE25 billion established as the intermediate result for the value of trading in listed and over-the-counter (OTC) stocks and bonds to be achieved by 2001. During 1999, trading value was LE39 billion, up from LE23 billion in 1998. The first quarter of 2000 saw trading valued at LE18.1 billion, up from the LE9.04 billion recorded in the first quarter of 1999.

### **Volume of Trading**

CMD's contract projects the volume of trading in 1998 at 400 million shares and establishes a trading volume of 600 million shares as the intermediate result to be achieved in 2001. In 1999, 1.1 billion shares changed hands. In the first quarter of 2000, 299.1 million shares changed hands, up from 191 million shares in the first quarter of 1999.

### **Market Capitalization**

CMD's contract baselines market capitalization at LE70 billion in 1998 and establishes LE100 billion as the intermediate result to be achieved in 2001. At the end of 1999, market

---

\* The figures presented in this section were provided by the CMA.



capitalization stood at LE112 billion, up from LE83 billion at the end of 1998. At the end of the first quarter of 2000, market capitalization was LE137.3 billion.

### **C. Long-Range Outcomes**

This section outlines the ways in which CMD's ongoing work contributes to the realization of its long-range outcomes. For a complete discussion of particular activities, refer to the institutional sections of this report and to the project's work plan.

**C1. *A well-developed and fully integrated stock exchange with back-up system, online surveillance capacity, and an increased trading capacity of over 20 times present capacity.***

During 1999, CMD procured new hardware to run the exchange's new trading software. The hardware was delivered during the fourth quarter of 1999 and first quarter of 2000. The new trading system is able to handle over 50,000 transactions per day, 10 times the exchange's current daily average. The new hardware also provides for a "hot" backup system, designed to step in seamlessly in the event of a system failure; a "warm," disaster-recovery system, which can also be used for training purposes; and new communications servers to handle increased network traffic (see Section III, 2.1). CMD plans to continue training and other assistance to the CMA and CASE in this area later in the year.

**C2. *Improved national clearing, settlement, and depository systems in place with increased capacity, performance, back-up security, and reliable communications.***

During the first quarter of 2000, CMD delivered equipment to upgrade the MCSD's main server. It will complete installation of firewall security systems at MCSD and the CMA in the second quarter (see Section II, 2.2 and IV, 2.1).

CMD also engaged a short-term expatriate advisor to evaluate and recommend improvements to MCSD and the CMA's network management systems. A report on the advisor's findings will be made available in the second quarter, after which CMD will specify procurement needs (see Section IV, 2.1).

**C3. *A cadre of trained regulators and securities market analysts, technicians, and executives.***

Training is incorporated into all of CMD's major activities. During 2000, the project is offering an extensive program of on-the-job training, workshops, and forums to its institutional partners and market participants. It also continues to work with the USAID-funded DT2 project to provide formal training, both in Egypt and internationally. For the exact nature of these training programs, see the institutional sections of the work plan and Appendix B.

During the first quarter of 2000, CMD's long- and short-term advisors conducted 1,176 person-hours of training, and 12,347 person-hours of training was provided through the USAID-funded DT2 project.

**C4. *A cadre of certified brokers.***

With ECMA and EIMA, the project is helping to improve the quality and variety of securities industry training. This assistance includes helping ECMA and EIMA improve their training departments and establish linkages with international institutions. It also includes helping EIMA to establish an investment management certification program (see Section V, A1.2 and B1.1).

**C5. *Stronger and well-developed self-regulatory organizations (SROs).***

In 1999, CMD worked with its institutional partners to introduce the concept of SROs into the Egyptian market and to determine the legal and regulatory conditions for their creation. By the end of 1999, CMD's efforts resulted in agreement on the part of the CMA management to help MCSD, CASE, and ECMA move towards SRO status (see previous QPRs).

Later in 2000, CMD will continue its work in this area with the CMA, as well as with MCSD, CASE, and ECMA. This assistance has two dimensions. On the one hand, the project is working to identify the legal prerequisites for the establishment of SROs in Egypt (an activity that will be focused on the draft of the new Capital Markets Law). On the other hand, CMD is working with the organizations to develop their institutional and organizational capacity to assume the role of SROs.

**C6. *Improved securities industry legal and regulatory environment.***

The market's legal and regulatory environment has two aspects: the laws and regulations that underpin market operations, and each institutions' rules and procedures. CMD continues to work on both levels. During the first quarter of 2000, CMD helped finalize the new Central Depository and Central Registry Law and, more importantly, took the leading role in drafting its executive regulations (see Section IV, 3.1). The project also began an examination the legal risks associated with bankruptcy provisions in Egyptian law and how these provisions affect the capital market (see Section IV, 3.1). When the draft is provided by the MOE, CMD will review and comment on the new Capital Market Law.

**C7. *A CMA system which provides for electronic data gathering, filing, and retrieval of enterprises' financial reports. A CMA–CASE market information system which supplies investors, traders, advisors, and others with necessary market information to formulate trading decisions.***

During 1999, CMD generated consensus at the CMA about the desirability of establishing a system for filing and retrieving enterprises' financial reports. In the first quarter, the project engaged a short-term advisor to help the authority begin outlining its requirements for the system. A report on the advisor's findings will be released in the second quarter (see Section II, 2.1).

**C8. *A coordinated public education and awareness program.***

CMD continues to help the market's institutions develop integrated communications strategies. The project helped launch a daily stock market closing report during the first quarter of 2000 and continued to assist with the nightly financial news segment (see Section II, 4.4). The project also began developing educational brochures on capital market topics

(see Section II, 4.2). In addition, the stock market game, developed with CASE during 1999, was successfully launched in secondary schools and universities (see Section III, 4.1). CMD also organize the thirteenth CMA–CMD Press Forum during the quarter (see Section II, 4.1).

At MCSD, CMD will begin implementing the communications strategy (developed in 1999) during the second quarter, helping to train a public relations manager and to introduce new modes of public outreach (see Section IV, 4.1).

Finally, CMD completed a new website for the CMA and website improvements for the MOE during the first quarter. Both sites will be officially launched in the second quarter (see Section II, 4.3 and Section VII, 4.1).

## APPENDIX A

---

### Non-DT2 Training Activities

The following tables summarize CMD's non-DT2 training activities during the first quarter of 2000. The project's DT2-sponsored activities are discussed in the institutional sections of this report and summarized in Appendix B.

**Summary of Non-DT2 Training: First Quarter 2000**

|                        | <b>Programs</b> | <b>Attendees*</b> | <b>Person-Hours</b> |
|------------------------|-----------------|-------------------|---------------------|
| First Quarter 2000     | 8               | 131               | 1,176               |
| 1999 Total             | 31              | 483               | 6,028               |
| <b>Life-of-Project</b> | <b>39</b>       | <b>614</b>        | <b>7,204</b>        |

---

\* "Attendees" only includes participants from our partner institutions and market participants. It does not include CMD staff members who attended the training sessions nor does it include USAID representatives.

## Non-DT2 Training Programs: First Quarter 2000

|                           | Title & Description   | Duration                        | Attendees | Person-Hours |
|---------------------------|---|---------------------------------|-----------|--------------|
| <b>First Quarter 2000</b> | <i>Credit-Risk Analysis Course and Roundtable</i> , conducted by subcontractor Standard & Poor's. Participants were from the CMA, CASE, and the securities industry. Following the course, CMD hosted a roundtable on issues and problems facing the credit rating industry in Egypt. Representative of rating agencies working in Egypt, Standard & Poor's, the securities industry, and the CMA attended (see Section II, 1.4). | 5 sessions, 3 hours per session | 20        | 300          |
|                           | <i>Securities Lending and Borrowing Kick-off Workshop</i> , conducted with short-term advisor Charles Rubin. Participants included MCSD and market representatives (see Section IV, 3.2).   | 1 session, 4 hours              | 20        | 80           |
|                           | <i>Introduction to World Wide Web (WWW) Technologies Seminar</i> , conducted by CMD long-term advisor. Provided instruction in basic web technologies (website development and maintenance) for MOE and CMA staff members (see Section II, 4.3).  | 1 session, 3 hours              | 10        | 30           |
|                           | <i>Book-Entry Registry Workshop (1)</i> , conducted by CMD long-term advisors. Workshop for CBE managers and line people on the implementation of the book-entry registry (see Section VI, 2.1).  | 1 session, 4 hours              | 30        | 120          |

|                                       | <b>Title &amp; Description</b>  | <b>Duration</b>                 | <b>Attendees</b> | <b>Person-Hours</b> |
|---------------------------------------|---|---------------------------------|------------------|---------------------|
| <b>First Quarter<br/>2000 (cont.)</b> | <i>Book-Entry Registry Workshop (2)</i> , conducted by CMD long-term advisors. Additional workshops for groups involved in development of the book-entry registry. Sessions designed to develop consensus on characteristics and desirability of registry (see Section VI, 2.1).  | 5 sessions, 3 hours per session | 10               | 150                 |
|                                       | <i>Money Market Workshop</i> , conducted by CMD long-term advisor. The workshop's five sessions were designed to teach the basic principles of money markets and money market instruments in order to prepare the CMA for the introduction of dealer-based trading and the new regulatory responsibilities it will bring. Participants were drawn from the following CMA departments: Corporate Finance & Mutual Funds, Surveillance, Accounting & Financial Analysis, Economic Research, and the Technical Office (see Section II, 1.4). | 5 sessions, 4 hours per session | 14               | 280                 |
|                                       | <i>Financial Disclosure Workshop</i> , conducted by short-term advisor Dr. Tony Sondhi. A one-day session for participants from the CMA Accounting Sector that covered consolidated financial statements, mergers and acquisitions, translation of financial statements in foreign currencies, cash flow statements, auditing reports, and sanctions for non-compliance with disclosure requirements (see Section II, 3.1).   | 1 session, 8 hours (full day)   | 10               | 80                  |

|                                   | <b>Title &amp; Description</b>   | <b>Duration</b>                  | <b>Attendees</b> | <b>Person-Hours</b> |
|-----------------------------------|--|----------------------------------|------------------|---------------------|
| <b>First Quarter 2000 (cont.)</b> | <i>Bankruptcy Law and the Capital Market</i> , conducted by short-term advisor Marc Albert. Participants were drawn from MCS D, the MOE, private law firms, and private banks. The workshop enabled participants to compare current provisions in Egyptian law with international standards—specifically with American legislation—in order to identify areas where improvement is needed. The workshop is a first step in outlining provisions necessary to reduce legal risk in the Egyptian clearing and settlement system (see Section IV, 3.1). | 1 session, 8 hours<br>(full day) | 17               | 136                 |
|                                   | <b>Totals</b>  |                                  | <b>131</b>       | <b>1,176</b>        |

## APPENDIX B

### DT2 and AUC-CACE Training Activities

The following table summarizes CMD's DT2 and AUC-CACE training activities during the first quarter of 2000. These activities are discussed in boxes throughout the institutional sections of this report.

#### Completed Courses (First Quarter 2000)

| TSN  | Program  | Date   | Number of Participants |           |           |          |           | Total participants | Hours per day | Number of days | Total hours  | Person-hours of training |
|--|--|--------|------------------------|-----------|-----------|----------|-----------|--------------------|---------------|----------------|--------------|--------------------------|
|  |  |        | CASE                   | CBE       | CMA       | ECMA     | MCSD      |                    |               |                |              |                          |
| 691-2  | Financial and Public relations in Stock Exchange     | Jan-00 | 2                      |           |           |          |           | 2                  | 8             | 10             | 80           | 160                      |
| 733-2  | Computer Training                                    | Jan-00 |                        | 7         |           |          |           | 7                  | 4             | 24             | 96           | 672                      |
| 693-1  | Basic Corporate Finance                              | Feb-00 |                        |           |           |          | 25        | 25                 | 5             | 15             | 75           | 1,875                    |
| 709-2  | Developer 2000                                       | Feb-00 | 6                      |           | 6         |          | 7         | 19                 | 3             | 21             | 63           | 1,197                    |
| 699  | Overview of Management Functions & Skills            | Feb-00 |                        |           | 10        |          | 15        | 25                 | 7             | 15             | 98           | 2,438                    |
| 743  | The Role of Banks in Emerging Capital Markets        | Feb-00 |                        | 10        |           |          |           | 10                 | 5             | 10             | 50           | 500                      |
| 733-3  | Computer Training                                    | Feb-00 |                        | 10        |           |          |           | 10                 | 3             | 20             | 60           | 600                      |
| 742  | Capital Markets: Functions, Tools & Parties Involved | Feb-00 |                        | 10        |           |          |           | 10                 | 5             | 10             | 50           | 500                      |
| 713  | Mastering Web Application Development                | Mar-00 | 2                      |           | 6         |          | 2         | 10                 | 4             | 10             | 40           | 400                      |
| 731-2  | Mutual Funds   | Mar-00 |                        | 5         | 5         |          | 5         | 15                 | 4             | 24             | 96           | 1,440                    |
| <b>Total DT2</b>                               |  |        | <b>10</b>              | <b>42</b> | <b>27</b> | <b>0</b> | <b>54</b> | <b>133</b>         | <b>48</b>     | <b>159</b>     | <b>708</b>   | <b>9,782</b>             |
| <b>English Language Training - AUC-CACE</b>    |  |        | Winter 99              | 11        | 6         |          | 2         | 19                 | 3             | 45             | 135          | 2,565                    |
| <b>Total AUC</b>                               |  |        | <b>11</b>              | <b>6</b>  | <b>0</b>  | <b>2</b> | <b>0</b>  | <b>19</b>          | <b>3</b>      | <b>45</b>      | <b>135</b>   | <b>2,565</b>             |
| <b>Total AUC &amp; DT2: First Quarter 2000</b> |  |        | <b>21</b>              | <b>48</b> | <b>27</b> | <b>2</b> | <b>54</b> | <b>152</b>         | <b>51</b>     | <b>204</b>     | <b>843</b>   | <b>12,347</b>            |
| Total AUC-CACE: 1999                           |  |        | 9                      | 6         |           |          |           | 15                 | 3             | 45             | 135          | 2,025                    |
| Total DT2: 1999                                |  |        | 21                     | 15        | 22        | 1        | 17        | 76                 | 46            | 115            | 584          | 5,137                    |
| <b>Total Life-of-Project</b>                   |  |        | <b>51</b>              | <b>69</b> | <b>49</b> | <b>3</b> | <b>71</b> | <b>243</b>         | <b>100</b>    | <b>364</b>     | <b>1,562</b> | <b>19,509</b>            |



## APPENDIX C

### Project Produced Reports

To date, the project has produced a number of reports, in both Arabic and English. Several of these reports were prepared during the work planning process as a way of introducing concepts and proposing action plans. Other reports were prepared as preliminary discussion documents and serve as a first step toward the completion of future deliverables.

#### Project Produced Reports: Through First Quarter 2000

| Title   | Date           | Language       |
|---|----------------|----------------|
| Securities Lending and Borrowing—Discussion Paper   | February 2000  | English/Arabic |
| Private Equity Investing: Venture/Development Capital Funds and Turnaround Funds                        | February 2000  | English/Arabic |
| Level One of the CMA Process Model  | February 2000  | Arabic         |
| Recommendations on the Development of Egypt's OTC Market  | February 2000  | English        |
| CMD Quarterly Progress Report: Fourth Quarter 1999  | January 2000   | English        |
| CMD Year-2000 Work Plan   | December 1999  | English/Arabic |
| Preparing and Producing MCSD's 1999 Annual Report   | December 1999  | English        |
| Proposal for a Stock Market Game  | December 1999  | English        |
| Draft Regulations for Central Depository and Registry Law   | December 1999  | English/Arabic |
| Proposal for a Fair and Reasonable Fee Structure  | November 1999  | English/Arabic |
| Investment Securities—Legal Workshop Materials  | November 1999  | English        |
| Improving Reporting on Investment Funds in Egypt  | November 1999  | English        |
| International Securities Numbering System (ISIN)  | November 1999  | English        |
| A Proposal for Improving Broker Compliance Procedures   | November 1999  | English/Arabic |
| Unit Investment Trusts—Background Paper   | October 1999   | English/Arabic |
| A Proposal for Registering Securities Sales Representatives.  | October 1999   | English        |
| Independent Credit Ratings: Needs and Demands of the Egyptian Market                                    | October 1999   | English        |
| CMD Quarterly Progress Report: Third Quarter 1999   | October 1999   | English        |
| A Communications Strategy for MCSD  | September 1999 | English        |
| Training-of-Trainers Workshop for ECMA  | August 1999    | English        |
| Training in Capital Markets: Current Practices, Recommended Products, and Possible Directions for CASE. | August 1999    | English        |
| Recommendations on Information Display Devices  | August 1999    | English        |

| <b>Title (cont.)</b>   | <b>Date</b>   | <b>Language</b> |
|--|---------------|-----------------|
| CMD Quarterly Progress Report: Second Quarter 1999                         | July 1999     | English         |
| MCSD 1998 Annual Report  | July 1999     | English/Arabic  |
| MCSD Organizational Structure, Functional Statements, and Job Descriptions | June 1999     | English/Arabic  |
| A Proposal for Developing a Market Surveillance Program                    | June 1999     | English/Arabic  |
| Government Securities Book-Entry System: System Requirements Report        | June 1999     | English/Arabic  |
| CMA Annual Report  | May 1999      | English/Arabic  |
| A Comparison Between Egyptian and International Accounting Standards       | April 1999    | English/Arabic  |
| CMD Quarterly Progress Report: First Quarter 1999                          | April 1999    | English         |
| Survey of Regulations Pertaining to Credit Rating and Rating Agencies      | April 1999    | English         |
| A Primer on New Financial Instruments                                      | April 1999    | English/Arabic  |
| An Update of the CMD Project's Market Surveillance Activities              | April 1999    | English         |
| Code of Conduct Recommendations for ECMA                                   | February 1999 | English/Arabic  |
| CMD Quarterly Progress Report, Fourth Quarter 1998                         | January 1999  | English         |
| Establishing a Settlement Guarantee Fund in Egypt                          | December 1998 | English/Arabic  |
| Developing a Book-Entry System in Egypt                                    | December 1998 | English/Arabic  |
| Self Regulation, Market Surveillance, and Codes of Conduct                 | December 1998 | English/Arabic  |
| Projects to Facilitate the Introduction of Local Credit Ratings            | December 1998 | English         |
| Proposed Television and Internet Activities                                | December 1998 | English         |
| CMD Project First Annual Work Plan   | December 1998 | English/Arabic  |
| An Integrated Communications Strategy                                      | November 1998 | English         |
| Training Recommendations on the First Year Work Plan                       | November 1998 | English         |
| Media Recommendations on the First Year Work Plan                          | November 1998 | English         |

## **APPENDIX D**

---

### **Summary of Reports: First Quarter 2000**

#### *Securities Lending and Borrowing: Discussion Paper*

February 2000, English and Arabic, CMD Short-term Advisor Charles Rubin  
Institutional Partner: MCSD

This paper discusses the basic aspects of a securities and lending facility, which MCSD will be mandated to form under the new Central Depository and Central Registry Law. Such a facility does not currently exist in the Egyptian capital market. When created, it will give market participants access to a source of securities liquidity at settlement time when a participant's securities position is not sufficient to meet its obligation to MCSD. By providing liquidity, it will reduce late or failed settlements.

The report is based on international best practices for implementing the service. It discusses the purpose and benefits of securities lending and borrowing, and presents the concepts involved in its operation. It also outlines the basic accounting entries that are posted according to U.S. securities accounting standards as a model for the Egyptian market.

The report was drafted by CMD short-term expatriate advisor Mr. Charles Rubin. Mr. Rubin helped lead the project's successful efforts to establish the SGF during 1999. He has over 25 years experience in the securities industry, including responsibilities as a senior executive with broker-dealers, the New York Futures Exchanges, and a prominent futures commission merchant. He also has consulting experience in most areas of the domestic and international securities and futures businesses—e.g., sales, trading, operations, accounting, administration, and investment banking. He holds licenses as a General Securities Principal, Financial Operations Principal, Series 7 Registration, and Futures Registration.

#### *CMD Process Model: Level One*

February 2000, Arabic, Ibrahim Sabri and Yasser El-Alaily (CMD IT Team)  
Institutional Partner: CMA

CMD began work on the CMA segment of the capital market process model in mid-1999, after CMA approval was received. The process model is a graphical description of information flow through and between the CMA's departments. When the task started, CMD intended to diagram only those departments involved with the regulation of the market (in particular the Market Operations Sector), but upon reviewing initial drafts, the CMA requested that all of its departments, including the administrative units, be included. The model has diagrams for 16 different departments in the CMA's five major sectors.

Upon completion of the first level of the process model, CMD's teams began work on the second level, which we expect to complete during the second quarter. We will also complete an English translation of the first level of the model.

CMD's information technology team relies on the expertise of local information subcontractor Arabsoft, one of Egypt's foremost information management consulting firms. The team is led by Ibrahim Sabri, a senior systems analyst with 22 years experience in systems analysis and design, including project management, user requirements analysis, and data-gathering techniques. Yasser El-Alaily is a senior systems analyst with 14 years

experience directing the development and construction of data-processing systems, including planning, programming, systems analysis and design, and testing.

*Private Equity Investing: Venture Capital/Development Funds and Turnaround Funds*

February 2000, English and Arabic, Wageeh Nabarawy and Thom Flohr (CMD project)

Institutional Partner: CMA

In the fourth quarter of 1999, the CMA Chairman asked the project to provide a short discussion paper on the basic aspects of venture capital and turnaround funds, including a discussion of whether and how such funds should be encouraged in Egypt. CMD completed and delivered such a discussion paper in the first quarter of 2000. It covers the basic elements of both types of funds, describing their purposes, basic characteristics, risks, and benefits (both to investors and to a market and economy on the whole).

The report concludes that private equity funds can provide needed capital for new companies, growth for existing companies, and turnaround investments for troubled companies. Nevertheless, the managers of these funds are sophisticated investors who require legal and regulatory protections to raise and successfully manage private equity capital in a given market. As a result, shareholder protections in corporate governance provisions, protection against self-dealing, and other minority shareholder protections must be coupled with effective enforcement procedures to prevent abuses and ensure the success of the equity funds.

This report was drafted by CMD Senior Financial Advisor Wageeh Nabarawy and U.S.-based Chemonics International Inc. Consultant Thom Flohr. Mr. Nabarawy has over 20 years experience working with and developing financial instruments in the U.S. and Egypt. He has designed instruments such as bonds, convertible bonds, and preferred stocks for the Egyptian market, and developed corporate bonds for public-sector companies. Mr. Flohr is a securities attorney and investment banker with 19 years of hands-on experience as a capital market participant and corporate finance advisor. As manager of USAID-funded privatization contracts in the Czech and Slovak Republics, he provided advice on state divestiture, conducted enterprise appraisals and valuations, recommended approaches to enterprise restructuring, and assisted with the implementation of foreign investment and privatization transactions. He also served as an advisor to the Latvian Privatization Agency and as director of mergers, acquisitions, and leveraged buyouts for a major investment banking firm.

*Recommendations on the Development of Egypt's OTC Market*

March 2000, English, Charles Forman

Institutional Partner: CASE

CMD evaluated the current state of Egypt's over-the-counter (OTC) market and recommended short- and long-term measure to improve its efficiency and depth. The report notes that the OTC market currently lacks sufficient regulations. The examination of processes for OTC trades reveals that there are two sets of procedures, one for trades under LE20 million and one for those over LE20 million. The different procedures sometimes lead to differences in the trade dates that are posted, with resulting confusion on the part of investors and brokers. In addition, the report finds that the a great deal of paper work is needed for conducting trades, some of which may not be necessary, and that information about the trades is not adequately distributed to market participants.

The report concludes with 13 short-term and 8 long-term recommendations. The recommendations are designed to ensure that the essential elements of a liquid OTC market are in place: online quotes, display of last-sale information, and dealers who can trade as principals. The appendices graphically describe CASE's procedures for OTC trades and provide sample forms.

The report was written with the assistance of CMD short-term advisor Mr. Charles Forman. Mr. Forman has over 27 years of experience in the securities industry. At the Pacific Stock Exchange, where Mr. Forman spent a majority of his career, he served as vice president of the surveillance group, senior vice president of the equities division, and senior vice president for strategic planning. His areas of expertise include stock exchange operations, trading, clearance and settlement, and rules and regulations effecting these activities. He also has extensive experience in formulating design specifications for major automated trading systems and in assuring the successful implementation of such systems.